

IMPACT OF THE CULTURAL AND SOCIAL FACTORS IN THE LOCATION OF INDUSTRY

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INTRODUCTION

INITIAL SITUATION

Since the dawn of mankind, evolution has always been linked to humans, since the introduction of the first societies, the men have been transforming the way they live and interact with the environment around them. These changes are reflected in technology, the first rudimentary tools were used primarily to obtain food, to this discoveries many tools as the wheel, pulley, mill etc. were proceeded. One of the best exponents in this evolution was the introduction of machinery; it helped the Industrial Revolution that began in the eighteenth century, although some machines had been already invented like the steamboat.

Great Britain was the cradle of industrialization, followed by countries such as Belgium (Walloon), Germany(Saxony and Berlin) and France (north of France and Alsace), and later on, other European countries like Spain (Catalonia) and the Austrian Empire (Bohemia and Moravia) became important. Moreover, countries out of Europe like the U.S. and Japan took part in this revolution. Most of them were primarily textile and steel industries.¹

The First Industrial Revolution meant the transition from a traditional agrarian economy to the one based on industry and mechanized production. The only industry until then consisted of small workshops with minimum production geared towards consumption.

The population, mostly peasants, was concentrated in rural areas; there were few cities poorly developed. Since the developments in the industry imposed by cities, rural people began to migrate en masse to the cities; as a result, they created the industrial societies and big cities

Several changes have helped to the expansion of industrialization, these changes were: the agricultural revolution produced by the rise of production, the use of fertilizers and the application of new farming techniques. Furthermore, the variation of demography (less mortality and high birth rates), the new technical innovations, the improved communication, the advances in transportation, the discovery of new sources of energy etc. Besides the increase of long-distance trade stimulated the production and the accumulation of capital was invested in the industry.

In the nineteenth century the 2nd Industrial Revolution began, it was produced by many social and political changes which were taking place in the international context. This stage was characterized by the use of new energy sources (electricity and petrol), changes in work organization (line work (Ford)), the development of new sectors of production (chemical, food), new forms of finance (banks, Limited Corporation) and the formation of an extended market.

¹ <<Universal history>> Gomez Navarro and others (1973)

In the early twentieth century, the globalization of the economy has already begun as a result of the need to obtain raw materials and control new markets to sell surplus industrial production. The major powers embarked on the conquest, started to control territories in Africa and Asia forcing the integration of different economies, this type of imperialism would constitute a cause of the outbreak of the First World War.

After the end of The World War, the world witnessed a technical scientific revolution that led to the 3rd Industrial Revolution and it was confirmed in the 60s with the deep crisis that hit the capitalism. In this period the industry, remained like the engine of the countries, but it reduced its participation in the economy as a whole (instead of services). Companies have developed a clear strategy of transnationalization, from the economic point of view; they have produced the opening of borders. Innovations have been multiplied, the consumption of natural products has been decreased and new sectors, such as microelectronics, biotechnology, robotics, etc have emerged. The direct manufacturing labor has also been reduced and the management has been increased, with a best of control R & D, providing flexibility in various stages of production, as a consequence, it decentralized the productivity and increases the SMEs. These advances have always been aimed at the optimization of processes, labor forces and materials. The new advances makes possible the use of new techniques and new studies, all of them are designed to get the most out of the industry, resulting in better performance and benefits.

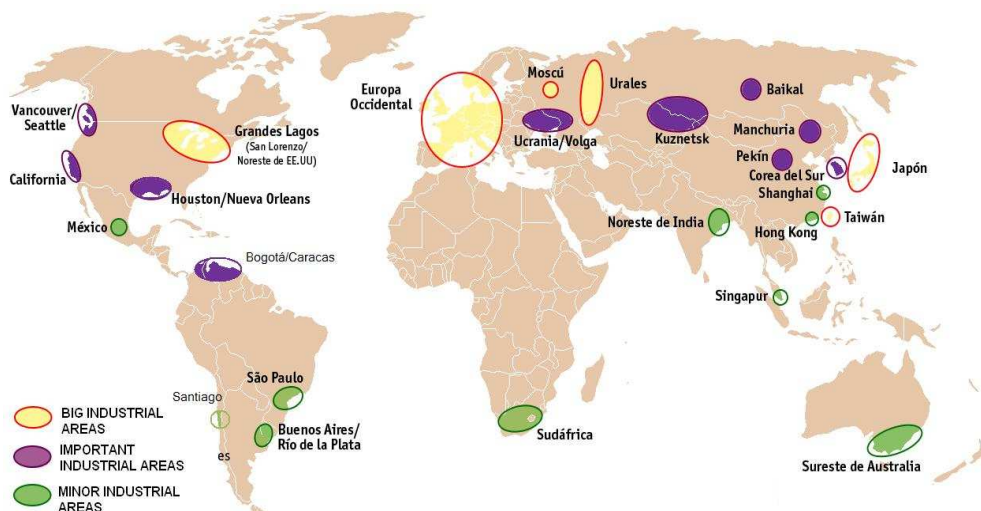


Illustration 1 Map of more important industrial areas of the world.

In illustration 1 we can see the most industrialized areas (yellow) in the world; we can see that the highest concentration is placed in Europe where the industrial revolution began. It can be seen the great industrialization in the countries that followed Europe in the early nineteenth century such as U.S.A and Japan.

The purple color highlights other industrial areas which did not participate in the First Industrial Revolution but they became to acquire importance as industrial centers many decades later, when they made their way towards industrialization. The green areas underline

the places which are currently rising: Eastern Europe, center of Asia, Mexico, South America with Buenos Aires, Sao Paulo, Venezuela and other smaller areas in Africa (South Africa) and southeastern Australia.

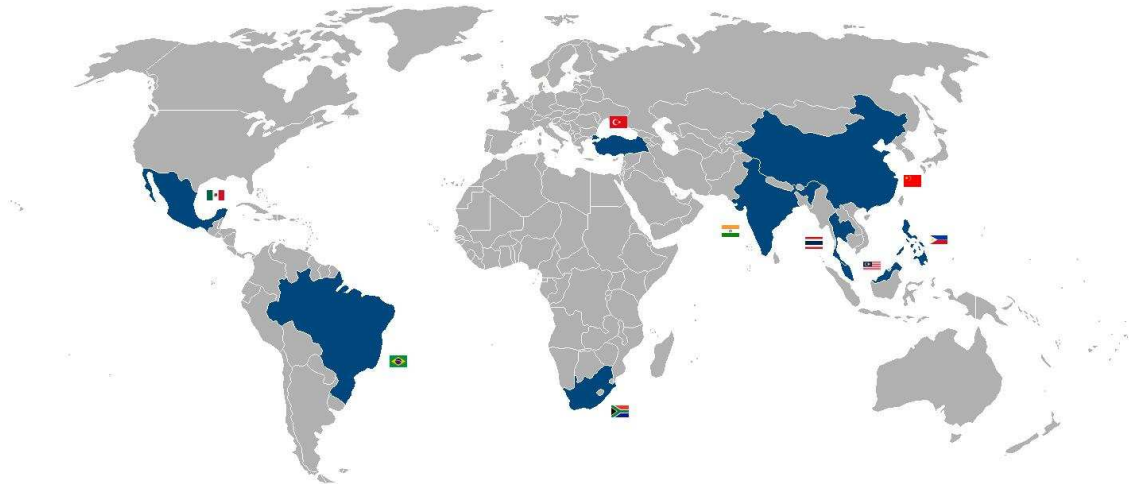


Illustration 2 Map of newly industrialized countries

In Illustration 2 we can see the new industrialized regions, these areas have emerging economies and a very high growth potential and they are conducive to the establishment of new industries that consider a very good opportunity to get benefits. Big multinationals get in these countries considerable advantages over the already industrialized countries. Furthermore, there are many brands that are closing their factories in developed countries in order to settle on those regions. These areas are especially Mexico, Brazil, South Africa, Turkey and the countries of Central Asia.²

The main goal of an industry is the transformation of inputs into outputs, in other words, raw materials or products made by a specific process; thereby the company makes a profit. For getting the maximum benefit, the leaders have to optimize all variables and agents acting and affecting their company. One of these variables is the location, broadly speaking; the term makes reference to the choice of the place where the industry will be placed in order to achieve the optimal development of its activities. The factor of location has been taken into account from the beginning of industrialization, but at the beginning, few factors were considered and most of fabrics were placed near the raw materials. However, it was a time when the importance was given to other factors, and this has been reflected in the recent decades, since the availability, cost and skills of the workforce to the reputation and land policy, communications, outreach to the raw materials, competition etc. Moreover, it is necessary to think of further studies about changes concerning the long-term market. It is very important and necessary to study all the possibilities of location, since they will affect the success of the company.

² <<Globalization and the transformation of foreign economic policy>> Paweł Bożyk (2006).

This is the topic that we have chosen to be developed in the following points. It will deal with the factors in the location of an industry.

OBJECTIVES

As far as location is concerned and speaking of the optimal place where the company will be placed, it has to be considered the two ways of studying the location: The Macro-location and Micro-location. This thesis is going to focus on macro-location which makes reference to the global location (country, region and city). On the other hand, the micro-location, which means the land or parcel where the company can be located, this point is not going to be discussed here.

These are the objectives that this thesis is going to deal with:

Explaining the reasons for the location of the industry, looking at what other authors have said throughout history, the techniques used for obtaining the potential locations, the factors influencing the location's decision poring over each of them, treating these factors in an objective and seeing how important is each in the final decision.

Going through history in order to see how the guidelines have changed to locate the industries since the beginning of the industrial revolution to our times. In addition, writing about the new factors that are emerging nowadays and inferring which factors are expected to be important in the near future.

Making a comparative study of this issue and the customs of Spanish and Austrian societies, seeing the differences and the points they have in common in order to find the reasons for these differences and similarities.

In short, people who read this study will have a clearer idea of what the location of the company consists, they will know which factors influence the study and how important are these factors in the final decision. It can also be seen a specific vision of the situation in Austria and Spain which is so closed that makes possible the comparison of the two countries. In addition, some examples and illustrations will help the reader to understand the ideas in a more practical and didactic way.

TECHNIQUES AND FACTORS THAT INFLUENCE THE LOCATION OF THE INDUSTRY

INTRODUCTION TO LOCATION

Men have always tended to modify and transform nature at will, and thus, they have taken advantages from their resources. In a generic sense, this transformation is what we might call industry. The element of nature that we want to transform is what we call raw material and the transformed object is called elaborated product, or if it requires further processing semi-produced.

The industry was the motor sector of the economy since the nineteenth century until the Second World War. Since the capital investment in Europe from the accumulation of wealth in agriculture, it was invested in industry and the required transportation to bring products to market. In principle, industrial products increased the productivity of land, which could liberate labor for the industry and it was able to obtain surplus agricultural products to feed a growing urban population, who no longer lived in the field.

The industry was the most important economic sector that contributed to gross the domestic product (GDP), and it had the most of the labor, but since then, with the increasing productivity thanks to the improvement of machinery, and the development of services, this sector has passed to a secondary place. However, it remains essential, because there can be no services without the development of industry and it remains the cornerstone of the capitalist economy that revolves around the worldwide economy. Nowadays, the industry is becoming more and more global and it is in this situation where the multinational companies take part

Ultimately, it was the industry that allowed the development of capitalism in its origins, before covering other business areas such as agriculture and services. Thanks to the industries, the accumulation of wealth and capital was achieved; as a consequence, they acquired the ability to expand by themselves. And it was the industry that allowed the movement called internal market, the authentic field of action of the operators which are based on current states and nations. For all this, that industrial activity has been the activity par excellence of capitalism.

As it has been stated before, although the industry lost its primacy to the detriment of services in the past, in our time it remains an essential activity of the system.

Companies have different objectives, but its main purpose is their own survival which it is achieved by getting benefits for its individuals. Therefore, it is necessary to optimize all the agents of the company to obtain the maximum benefit and performance. The location factor is essential to know how is the optimal place to implement our industry, in other words, the ideal place where our company will make a higher profit. In this point is where the importance of localization resides, it is not as easy as it seems at first sight but it consists of studying all elements needed for our company (raw materials, labor, energy) and of analyzing all the possible factors of location (region policy, reputation, communications, access to energy) and of finding the optimal site in order to implement our business.

FACTORS AFFECTING LOCATION

The classification of factors that influence location can be very diverse, but in this case, we will make a distinction between direct and indirect factors.

Direct factors

The direct factors are factors that influence the production process or the distribution. These factors are:

- The production factors
- The capital, economic factors
- The market factors
- The land and site conditions

The production factors

These factors are the basic elements of the production unit. Initially the employer will manage with them and he will put the company where the cost can be minimized and the profits maximized. In economics, factors of production are those resources or materials that add value for the production of goods and services, when they are combined in the production process

- Need for energy and raw materials

Today, thanks to communications this is not as important as before but it is still important in order to have access to energy (oil, gas, electricity) and to raw material supplies. Many theories of location's analysis give much more importance to this factor.

- The need for labor

The key factor to be considered especially in three areas: the number of employees, qualifications and cost. The difference in cost of labor explains the large dispersal of industries over regions where the cost is minor.

-The qualification of the worker

In various industries is essential to the proper functioning of the company. Particularly, the senior and the middle level which deal with leading the production and management of the company. Sometimes the company believes that the more convenient location has to be closed to the worker rather than the other direction, because the employee would have more

problems to adapt themselves in an unknown social environment. For this reason, most of communities chosen are characterized by the existence of good opportunities for the worker and family, schools, sporting and cultural activities, leisure etc.

-The labor costs

They are central to the location, whether the choice of the place were a region or country. Nevertheless, it is not the most important cost as productivity, as in the case of countries like Holland and Japan where there are a very high level of productivity although labor costs are not as low as other countries where the cost of living is cheaper and therefore there are fewer wage. It also influences trade union laws which may limit productivity by cuts in working hours, strikes etc.

-The number of workers

Through history, the number of workers that has been required by the industry has encouraged migration from rural places to large cities where factories could be found. But in recent decades, it has lost weight thanks to new technologies, especially the advances in communication that made possible the separation of units of decision and the production facilities, favoring industrial decentralization to medium-sized cities, suburban and even carriers in rural areas.

The capital, economic factors

The capital may affect production costs through the value of money and this fact varies from one country to another, although these changes usually occur between countries and not within the same country.

The fixed capital (machinery, buildings) is not involved in the whole decision of the location. However, it is the financial capital which can vary, especially the medium industries of local areas due to affinity between the bank and the owner it is easier to obtain funding. As well as national, regional, or local government intervention that can provide financial facilities like grants, low interest rates or tax benefits with tax cuts. When the sizes of the industry are large, employers go to big banks or create limited companies for getting greater funding. Cottage industries were disappearing in favor of large industrial enterprises that were located in large metropolis to become multinationals.

It is also important to exchange rates as they have a direct effect on the relative costs of each country, companies that take their production to low cost countries risk of that their comparative advantage disappears with the exchange rate fluctuations. Therefore, the change of value of the coin is presented as a factor to take into account by any firm competing in a global context.

The growth of high and fast productive countries tends to see revalued its currency in relation to those less productive or with a slow development. However, we must take into account the benefits that entail since such change can be offset by the disadvantages, in terms of productivity and infrastructure, inherent to these savings. We must also consider other economic factors like inflation, repatriation costs and capital investment etc.

The market

The improvement of communications, the advances in transportation, the distribution of population and the incomes forces industries towards market orientation. In addition, the industrial activities and location are market-oriented, that is located close to where the product will be finished. This happens when their industry suffers from one of these factors:

- The product gain weight in the manufacturing process

It is easier to locate the company close to where we are going to sell the product because it is more economical to transport raw materials for industry rather than transport the finished product. Moreover, if the transport is heavier, the costs will be higher.

- When the products are perishable or fragile.

If a product is perishable, it is undesirable that the factory was far away from the place where the product is sold because the longer distance to the market, the higher risk of lost production.

- When the close contact with the customer is necessary.

Many companies need to be close to market by a deal with the client, whether the product requires it or because that is their policy

- For transport's fees charged.

If we are near the market, the transport costs will be lower and we are less exposed to possible transmission charges as taxes, tolls, fuel, transport, salaries etc.

- Benefits of being near the market

Because markets often are centers where population is concentrated, therefore the demand is increased.

The land and site conditions

As it has already been mentioned, the progress in transportation and the developments in communication have improved the flexibility of spaces where an industry can be located. Although this will depend above all on the market, production and capital, the accurate location can also influence a lot, depending on the extension of land and quality of communications, access and economies. In general, the industrial land is settled on the peripheries of cities and local governments, in fact, they administer the services on their own; they also conditioned the land and gave facilities for industries calling at their cities, and employment giving numerous benefits to their citizens.

Once we have chosen the city an additional factor to be considered is the cost of land and construction of buildings and other infrastructure necessary for the effective implementation of the facilities for the company. Apart from, the quality of soil and the necessary expense for future extensions, it must be ensured water and electricity supply.

The land cost is not significant when it is compared with the production, and the profitability of this cost will be critical to the location near transportation hubs and lines of communications since it will eventually be a considerable savings expenses.

In developed countries, these logistical factors are becoming less distinct as it has reached a very high level of communication. Nevertheless, it is an existing problem in countries or developing regions where communications are not as desirable as they could be.

Indirect factors

The drivers are not directly related to the production process, before, these factors were not given so much importance but now they are increasing their weight in the final decision.

- Transport costs
- Market Competition
- Government, union and legal frameworks
- Cultural and social factors

Transport costs

It has been the most industrial location factor studied and it relates transport cost with distance

Communications systems have evolved over time and needs, the importance of the railroad was lost with new communications, first with the roads and then with the highways. They also include ports and their connection by sea, and airports. However, in recent years, the railway has turned into a very viable alternative due to the dry ports; inland intermodal terminals connected to maritime routes that through industrial container, they receive with raw materials and send their products. According to the United Nations Conference on Trade and Development (UNCTAD) the definition of inland terminals or dry ports is *an inland intermodal terminal directly connected by road or rail to a seaport and operating as a centre for the transshipment of sea cargo to inland destinations*.

There are three factors influencing the cost of transport:

- The structure of transport costs which allows a reduction in the cost per weight unit.
- The mode of transport (rail, truck, boat) and the type of merchandise.
- The volume and weight of the goods, the higher the volume, the lower the unit cost.

Labasse³ established 3 types of industry according to the percentage of the above the total cost of product.

- > 5% minimum, steel, petroleum refining, and the industries where raw material is a high cost
- 2% < x < 5% does not broadly affect the transport

³ <<spatial organization>> Labasse (1973)

- <2% in this group there are most industries and for example the car industry is the freest one

Market Competition

The location of the main competitors may also be a factor in the location of the facilities for a firm.

In some cases, the existence of a competitor in an area may be inadequate to the presence of the company. Nevertheless, the opposite case is also quite common: once a firm decides to produce in a market, it is usual that other competitors tend to follow as quickly as possible as the advantages and barriers of entry allow. These barriers have been collected by firms due to their status pioneer. This type of decision is not so much based on the benefits that can be achieved with that location, as in the heavy losses that may result in a failure in the attempt of following the competitor. We have to keep in mind that the competence makes prices decrease but if there is cooperation (oligopoly) prices go up and earn higher profits than if there was competition. Sometimes an industry have not any competence, usually by the entry of new entry barriers due to large investment costs or limited licenses available for some types of activity to draw back the potential competitors, this is called a monopoly.

Government, union and legal frameworks

Generally, any company that decides to locate its plant at some point, has to study the actions of local governments since they control many of the mechanisms that may influence the success or failure of investments in that territory: rate decisions exchange and interest rates, fiscal measures, tariff barriers, limits on imports or foreign investment policy and any other economic or social.

As the law of a particular country may facilitate the development of the operations of a firm, we can become a real obstacle for them. In addition, most of this legislation often has a more or less directly influence in the costs of the company. Therefore, we can say that the legal framework for an external location can provide an edge over the competitors of the company.

This is compounded by the social legislation which affects aspects such as labor costs, the ease of recruitment or association and it will be of great interest to those firms in intensive labor. Similarly, environmental laws can be of considerable importance, especially in those sectors characterized by more polluting production processes, such as chemical industries.⁴

Cultural and social factors

This topic will be more deeply discussed in the following part of the study, but we can say that these factors have started to be relevant in recent. However, with the increasing need to obtain the maximum benefit possible, it is currently being studied all the details that may affect our industry in the location and running. Therefore, those factors such as the regional

⁴ << Location, layout and maintenance>> Vallhonrat and Corominas (1991)

quality of life, the social or ethnic conflict and national and international reputation of the area among many others are coming nowadays in order to play as relevant factors in the final decision of location.

MODEL OF LOCATIONS

JH von Thünen⁵ (1783-1850) is considered by many the author who started the classical location theory, making extraordinary models to discuss the effect of different variables on the balanced studied. Though his models, he tried to explain the location of activities agricultural.

A large number of authors have created theoretical models using many factors involved in the location of an industry, models that attempt to simplify the complexity of the real world factors by taking factors as constants and other as variables. The principles of these theories are related to the overall economy considering the entrepreneur as an economic agent which sole purpose is to maximize profits.

These models generally fall into 3 or 4 different groups.

- Theory of minimum cost
- Theory of market areas
- Integrated theories.

Theory of minimum cost

His maximum precursor was Alfred Weber in 1919; Weber states that factors concerning location were forces that acted as economic causes of the location, as a result of acting on the locational unit, the savings were obtained. He divided these factors in 4 types:

- General: applicable to all types of industry, labor, and transportation costs
- Special: own types of industry, therefore it is excluded from the general theory
- Regional
- Local

After listing some assumptions

- Raw materials, consumer and labor adopt a given point distribution.
- Wages in each location are fixed, but vary from place to place
- The supply of labor is limited and the transport costs are uniform, varying in direct proportion to the distance in a "mathematically flat plane."

On accordance to Weber, the main factor in location was transport costs; hence the proposed view about the place of production in order to minimize the total transport costs, including raw material supply and product distribution market. With all his premises established, he realized a geometric solution, the locational triangle Weber for finding the ideal place to locate the company.

5 <<Der Isolierte Staat>> JH Von Thünen (1826)

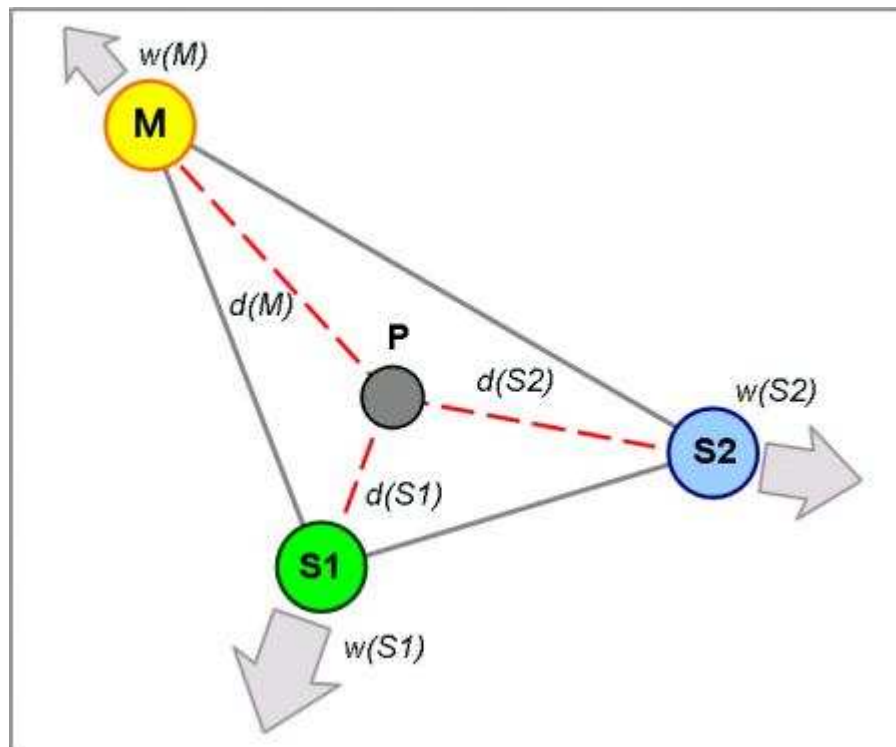


Illustration 3 Weber locational triangle

The Optimal Location Triangle tried to explain that industrial location decisions take place within the point in space(P) This point had the most favorable combination of transportation costs with the three basic factors (raw materials (S1), labor (S2) and market (M)).⁶

Theory of market areas

The precursor of this theory was Walter Cristallo in the thirties. Subsequently August Losch applied for the specific case of industrial location (Losch, 1954). Walter Christaller considered a unified territory, neutral and isotropic, made a deductive model of how systems are organized cities. The basic assumptions that were introduced to the former theory are:

- That the single market is a particular case
- The buyers are dispersed in a market area

The market area contains two elements:

- Market range (distance the consumer is willing to walk).
- Economic threshold of purchasing power or income necessary to support the activity (minimum amount required to pay)

Christaller takes a city where there are many activities and levels of activities classified in different fields of influence. That place is called the center of the territory which has a field of

⁶ << Theory of the Location of Industries>> Alfred Weber (1909)

influence. It creates a market that makes the place grow to be the superior radio activity. Christaller says that there is a competition and long-term space tends to be effectively organized in a balanced way without creating a loss of production or increment of the needs of the city as a result of growth itself. He notes that taking activities and spheres of influence, the land tends not to make holes and it closes at the end creating a hexagon.

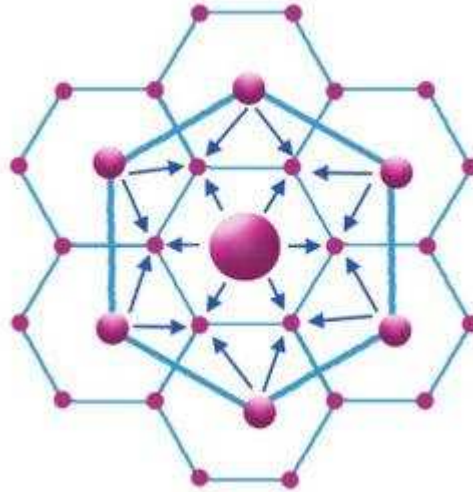


Illustration 4 *Rhombus market area of Christaller*

As we can see in illustration 4, the area that the company reaches, will have a hexagonal form in order to ensure that the service is delivered to all isotropic space. The price of the product will determine the threshold required by the company. The higher the price, the higher the threshold, but also there is a rise of the scope. This enables to establish a hierarchy of the central place. The first-order central places are smaller and more numerous, and the highest order is less. There is only one highest order. The higher central order place has all the amenities of the lower orders. The central places of higher order have the services of the lower central locations. The higher the place is, the larger the population. Regardless, taking the theory too rigidly, it is true that in reality it happens with much greater frequency than we would expect from the irregularity of real space. However, the historical evolution often is misled. The biggest problem which does not solve the theory is the influence that the population density has on the scope and size's threshold. The differences in population density, which supports the theory itself by concentrating the population in central places, can make the scope of a company be always higher than the threshold.⁷

Integrated theories

These models add new factors influencing the location and behavior and the environmental relations in a context of increasingly complex interdependencies.

In these theories, the authors are introducing new factors, variables, constants and mathematical formulas, giving importance to some things and assuming others. For example,

⁷ <<Central Place Theory>> Walter Christaller (1933)

Israd (1956) adds the inputs of transport, Greenhut (1957) makes two interesting contributions which introduce the role of decision-making and economic variables to be further adjusted to reality. Or the model of Smith (1979) which states that the production serves human needs and desires, even adding stolen securities, creating negative variants.

HISTORICAL EVOLUTION

At first the industries did not have many patterns of location, and the vast majority of the early industries were textiles industries or steel industries. For example in the textile industry, the companies were located mainly in rural areas because the existent factors in those moments led to this location. Some of these factors were:

- Emergence of this activity in rural areas by the existing tradition,.
- Existence of abundant labor, low-skilled and most women seeking alternatives to rural livelihoods.
- The family nature of many companies that began as small workshops and that evolved in successive generations.

Unlike the steel industry, at first, they were located in cities, which caused a great migration from rural areas to large cities. The steel industries were in the urban areas because they needed labor, and they were in the cities where there was economic activity.

These changes were reflected in the evolutions taking place in location theories, theories that have evolved because of changing demands and new needs arose.



Illustration 5 Map of the condition of industries in Europe between 1870 and 1914

These conditions have been changed over time depending on the new needs and factors that forced the company to be placed in another appropriate location:

- Need of spacious areas, well equipped with good transport services and that arise the need industrial sites, usually located on the outskirts of cities.
- The existence of national and international companies' recognition has made these industries arise from other companies to outsource or develop the production of a large company.
- Need to consider all possible factors that affect our company for finding an optimal location.
- Political changes with new laws, changes in social awareness, unions, new systems in the global economy etc.



Illustration 6 Europe map of the major industrial centers

In Illustration 6 we can observe the situation of European industries in the late nineteenth and early twentieth century. It can be seen that the main industrial centers are still in the regions where it started before the industrial revolution in the eighteenth century and early nineteenth centuries, throughout England, Belgium, Holland, Germany, and parts of France (Lyon, Paris). In cities of Italy near the center of Europe like Milan and Verona, and Eastern Europe like Moscow, Krakow and St. Petersburg, in Austro-Hungarian empire: Innsbruck, Graz

and Vienna main nuclei, and in Spain: northern regions such as Catalonia, Asturias and the Basque country. This situation refers to a centralization of the industry because it is found only in central Europe and that in areas outside of Europe, there is hardly any industry.

Today as we see in Illustration 6 the situation has changed, the industry has become global and almost all regions of Europe have exploited their resources. It can be seen that in the early twentieth century, there were places appropriate for the development of industries in those areas but there was not any developed industry. However, nowadays, there are major centers such as Eastern Europe, Scandinavia or Southern Europe.

CHANGES IN THE THEORY

Traditional theories of localization, especially that of Alfred Weber (1929), were very mechanical, they considered the homogeneous space and consisted of models that were suitable for the location of a company economically speaking since they reduced costs and gave great importance to the transport costs.

However, due to the technological advances and good communications, the transport costs are losing relevance and they have ceased to be a determining factor in location. Since later, they become relevant factors such as agglomeration economies or market conditions, emerging schools of thought that could encompass the several theories like the behavioral and the structural.

Behavioral theories

It focuses on demonstrating that the capacity of the employer is limited by the election. It is concerned with the existence of sub optimal location's analyze and human behavior, it takes into account the existence of large and small businesses, and the changing factors of location.

These theories have the continuing detrimental; they tried to create theoretical models and to treat companies like passive agents.

Structural theories

This aspect indicates that the location's decision cannot be outside the political, economic and social development. Moreover, the organizational changes and the decentralization of production provide benefits such as cheaper labor and avoid the "agglomeration diseconomies"⁸.

⁸ *An excessive concentration of economic and urban functions in an area often produces undesirable effects on our business.*

SOCIAL AND CULTURAL FACTORS AND ITS INFLUENCE IN LOCATION

As it has been mentioned above, the ideal location of a plant, factory or industry will be one which achieves minimal costs in production and distribution whereas prices and sales volumes lead to profit maximization.

For making this possible, the final decision of location should take into account the criteria of efficiency and competition, trying to get advantage over the competitors and knowing that the future location should never affect the normal development of business activities. In order to have a competitive edge, industries must consider all those variables that can potentially affect the future location of our company.

A major source of variables that can influence our choice of location will be the social, legal and cultural policy in a particular region or area. These types of factors can ultimately affect directly or indirectly the work of our industry. The social and cultural agents can become very complex and their study may be very cumbersome. However, it is a great need to do detailed studies because reports on these factors will give us an insight of the strength and weakness about the potential locations and this will give us competitive advantages over industries from the same sector.

The companies are entities of population characterized by a link between individuals and environment that do activities together and as a result, they give a specific identity. Society is also a set of knowledge among various economic, political, legal, cultural or sports. Within the structure of a society, there can be several cultures that have been created by man. In the same culture, it can be developed interactions among individuals because of their same customs, beliefs, religions, behaviors, language or ideologies. The situations of these societies and their values affect directly to the smooth operation of our factory, so we have to see which one will be the ideal region in order to install the factory.

But it is not only necessary to study the current situation, we must also take into account that societies evolve and undergo changes. The changes in social structures and their consequences sometimes change the rules and values of that society. The causes that can actually change a society are very different, sometimes social changes can come from success or failure of a political system, or phenomena as a particular revolution, democratization, economical growth or a specific crisis in some countries. One of these phenomena that in recent decades have affected most of the societies and cultures has been globalization.

In the recent decades, the increasing globalization is an economic, technological, social and cultural process that consists of communication and the growth of interdependence between

countries around the world by unifying its markets, cultures, and societies through social, economic and political changes, that situation gives a global character. It is clear that globalization has its benefits such as a major efficiency of the market by reducing monopolies or improvements in communication and international cooperation that makes a better use of resources. But there are not only benefits in the globalization but also negative effects such as increased economic imbalances, social and territorial also exists.

As these societies, companies, cultures and traditions are subjected to changes, it must be taken that into account when we choose location. It has to be seen the stability of an area, the possibility of change in the social context or any contingency that may alter the scene of an area or region.

In the following pages, we will include socio-political factors and cultural influential when choosing location, doing a detailed explanation of each one using some examples for a better understanding of the real situation.

LOCAL GOVERNMENT

Usually, any company that chooses to locate their foreign operations, they consider in a greater or lesser extent, the actions of local governments, because they control many of the mechanisms that may influence the success or failure of foreign investment in the territory.

These are important decisions on exchange rates and interest rates, fiscal measures, barriers, limits on imports and foreign investment or any other economic or social.

BARRIERS

Non-tariff barriers

Non-tariff barriers are "laws, regulations, policies or practices of a country that restricts the access of imported products to market". Therefore, they include legal rules like administrative rules that are not based on explicit measures

Exchanges rates

Exchange rates are important for companies that compete in the international market. They change the value of worldwide currencies and have a direct effect on the final price of the product we manufacture. Companies that place their factories in low cost countries are at risk to fluctuations in the exchange rate, as these costs can significantly be increased.

At the beginning, the fluctuation of change can contribute to the Industry but it can have negative long term end consequences: the devaluation of the dollar against the yen in the eighties placed U.S.A companies in a more competitive position against the Japanese. However, the relative valuation of the yen allowed the last ones to have more opportunities in order to improve their competitive capacity later on.⁹

⁹ <<Total Global Strategy: Managing for Worldwide Competitive Advantage>> George S. Yip (1993)

Limits for import and investment

There are monitoring imports that operates continuously in imported products. The effects are safeguarding the domestic market of the country or region. This measure affects specially textile, iron and steel manufacturing.

Tariff barriers

Tariff barriers are taxes (tariffs) to be paid in a country by the importers and exporters in the customs for the entry or exit of goods.

The main objective of tariff barriers is to prevent the importation of certain goods, either to balance the country's trade balance in order to protect the national production or to increase the exchange among groups of the countries.

Despite globalization and free trade, tariff barriers are a very sharp practice in many countries including United States which is self described as the freest country in all aspects.

Government facilities

Although the attitude of the authorities may be unfavorable to the establishment of certain business sectors in their domains, although most of the time they feel that their activities can be hazardous and harmful. Usually governments try to bring industry that can be a source of wealth, employment and tax revenues. Often, it stands for amenities in funding, grants, tax incentives, availability of land and access to other services. In recent years governments have been willing to provide help to industries that invested in renewable energy and limited environmental pollution.

For companies, the logistics in their business is very important; a country with better infrastructure is more likely to attract companies to its territory. Governments are aware of that, so they invest heavily in communications, improving roads, building roads that connect major cities, coordinate ports and airports, creating accessible industrial areas in the cities with every kind of services, and encouraging the use of new forms of communication like the dry ports.

In this sense, many manufacturers have found many advantages in the installation of their companies in any country; they are a clear example of automakers. But not only the time of choosing the location is taking advantage of these benefits, also in the current crisis, many carmaker have proved particularly adept at obtaining government benefits, these companies have used their weigh on the economy of the region and their huge percentage of workers in order to put pressure on governments so as they can obtain their economical help. Last year a clear example of this was the German company car: Opel, a subsidiary of General Motors.

Since the last crisis from which we are currently recovering, many companies have been losing a lot of money, as a consequence, they have had to make many spending cuts and the usual solution is the dismissal of workers. The impact of layoffs on society is enormous, so governments negotiate with the big companies in order to avoid layoffs. Opel, an industry which its 27% is owned by the multinational Austrian-Canadian MAGNA, announced a series of

cuts in their industries due to the crisis. It included the firing of 10,000 workers in its factories across Europe, as it can be seen in the table below:

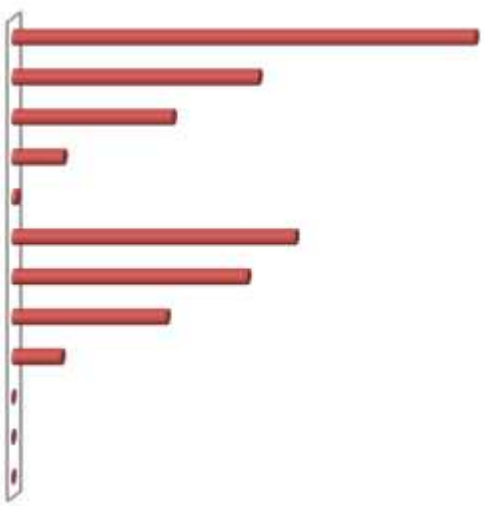
COUNTRY	EMPLOYEES		REDUCTION IN STAFF PLANNED IN 2011 TO END 2008
	2008	2011	
DEUTSCHLAND	24700	20584	
BOCHUM	4958	2767	
RÜSSELSHAIM	14673	13246	
KAISERLAUTERN	3379	2923	
EISENACH	1690	1648	
BELGIEN	2517	0	
SPANIEN	6401	4311	
GROSSBRITANNIEN	4475	3102	
POLEN	3514	3077	
ÖSTERREICH	1610	1610	
UNGARN	640	640	
ITALIEN	608	608	
TOTAL	45730	34778	

Table 1 Workforce reductions planned for 2009 in OPEL¹⁰

As it is shown on the picture, the original plan presented by GM was demolished and was expected more than 10,000 layoffs around Europe in 2011. In the table, we can see the last redundancy plan presented by Opel in 2009, the governments of Germany, Spain and Belgium affected by the cuts, protested these measures and began to negotiate with GM in order to reach a beneficial agreement for both sides. In the specific case of the Spanish factory located in the town Figueruelas, Aragon (Zaragoza), the company sent a formal letter to the government of Aragon which states that the Aragonese Industry was important for the automotive group, and it requests aid to autonomous and central executives.

Opel Company in Aragon is the engine of economy and it offers many direct and indirect jobs throughout the community. Therefore it was vital for the government to ensure that such dismissals were not produced and the parliament approved an aid of 200 million Euros but this amount is subject to a viable plan proposed by the company so that the layoffs were minimum and the workers were agreed with it. The German government also approved a financial assistance for the investment of the company, but along with the Spanish one, they were about to remove their offer when GM negotiated the idea of selling Opel.

¹⁰ Source according the data announced by the company Opel

After a short time and with an uncertain environment, Opel made a radical change and withdrew its initial plan redundancies and declared that it would make a strong investment in the new models of Opel cars. In addition, it ensured the production in Zaragoza for the next years, although, today the production had been reduced from 72% to 70%, and the 2% would go to the factory of Eisenach, going from 2,000 redundancies that were planned for 2008 until less than 600 at the end 2009.

This example has been protested and has received a lot of critics from society, as it is believed that the poor planning of the company has to be paid by taxpayers who have paid the governmental help and have accused the company of pressuring governments for aid and not taking responsibility for its mistakes.

STABILITY

Finally, for many multinationals, the stability of the local government can be even more important than its structure, subsidies, barriers, taxes, etc. Sometimes entrepreneurs find the relationship with governments easier, although they are corrupt and authoritarian, they have some stability because they can facilitate a more accurate estimation of the costs and benefits than other unstable and changeable governments or societies.¹¹

FRAMEWORK LABOR LAW AND LEGISLATION

The laws of a country or a region may facilitate the development of a particular industrial activity, but also they can mean a real obstacle for them.

The rules are related to the policies adopted by different governments; the laws depending on the type of government and as we have already said in the previous section, they will be more stable when a government enjoys the absolute majority or when they are totalitarian regimes. Typically, these laws are used by governments to attract foreign industries in order to bring jobs to its inhabitants. These laws depend greatly on the country and its culture, many multinationals take advantages of the loopholes, in some countries with young democracies and nations with changes in his government systems. Although, at present, it is considered that 98% of countries are democratic many of these democracies do not act as such and this is reflected in its laws, especially in countries of Central Africa and Asia.

The current social legislation of the countries talks about labor costs, hiring and firing, unionization etc. Also the environmental laws are important because they affect at the most polluted production processes, especially the chemical industry.

Many regulations about shared ownership have mean a turning point in the location of international companies, such as the abolition of laws that force foreign companies to share their capital with local entrepreneurs in countries like Morocco. It has led many companies to be encouraged in order to relocate their production there, also taking advantage of the low labor costs.

¹¹ <<This is affirmed by authors such as Bass>>, McGregor and Walters

These laws often have an influence, more or less directly, in the costs of the company. We can say that the legal framework of a location can provide a competitive advantage for a particular industry.

SOCIAL ATTITUDES TOWARDS ENTERPRISE

The company and the consumer have some tastes, the consumer's preference for making products locally is one of the factors that entrepreneurs have into account when they decide to locate industries near markets.

This propensity of the population in a given area to buy local products may be due to several factors, for instance, the purely nationalistic feelings, also the fear of getting an imported product that will not provide a service and response as if it was a local product. Or the belief that a product made abroad may have a lower quality.

Also people's attitudes towards a particular industry can be a decisive argument in rejecting a potential location. It is likely that public opinion can be contrary to some specific industries although the authorities in the area allow their establishment.¹² Before, it has been mentioned. The nationalist sentiment mentioned before can reach the extreme and cannot allow foreign investment in their country. Also the strong religious sense of a nation can go against some sort of industry; it is not because of a determined manufactured product but because of the differences in their policies.

INDIVIDUALISM vs COLECTIVISM

Traditionally, individualism has been associated with high rates of business' creation. However, at present, it is proving that some countries with clearly collectivistic culture are topping the creation of new industry.

This collectivistic or individualistic culture depends on several factors and has been studying for decades. The first studies associated it with the entrepreneur, such as certain psychological traits, such as the propensity to take risks, achievement orientation (McClelland, 1961) or internal control (Brockhaus and Horwitz, 1986) and other psychological traits not as a family history.

Nevertheless, subsequent studies have argued that what matters is not who are the businessmen are but what they make (Gartner, 1988). Entrepreneurs are those who identify, demonstrate initiative and set up businesses. The environments where an entrepreneur can help or hinder entrepreneurial activity, factors such as family relationships, access to financial resources or the support of the local community can potentially affect the entrepreneurial activity. Roughly a large number of environmental factors such as economics or politics can be a source of opportunity or a brake for entrepreneurs.

The term culture is used to refer to the set of permanent values of a country, region or company. Culture is for the nation, region or company like the individual to personality describing their behavior.

¹² <<Dirección de operaciones>>, Domínguez Machuca (1994)

Throughout these years of researches, it has been found some behavioral profiles and significant relationships between culture and business' creation (George and Zahra, 2002). In 1980, Hofstede found the cultural differences between countries in relation to four dimensions: the power of distance, uncertainty avoidance, individualism-collectivism, and masculinity-femininity. The individualist-collectivist dimension has been the most studied point because it is considered the deepest one when we study various cultures in the countries and their relationship to the creation of enterprises. A clear example is the U.S. that has always been characterized by high business activity, levels of competitiveness, the higher growth and development and the individualistic nature of their society. But now it faces with the paradox those countries with a clear collectivist orientation, for example, China has achieved high rates on the creation of industries.

QUALITY OF LIFE

Another aspect to consider in the election of the site is the predominant lifestyle of the location. Specially, this factor is highly regarded by those industries, specially for the industries that need technical staff, managerial and highly skilled, as they usually are the ones who move to the location of the company, because often the staff that is employed is from the area of location.

Although, in recent times, the trend has focused on the fact that companies move their factories to less developed countries, because the quality of life is lower due to lower wages, there are some companies that want quality of life and who are betting that if their employees are comfortable and happy with their job, they can be more productive.

The area of location takes into account things like, the existence of adequate educational facilities (nurseries, schools, universities), infrastructure, hospitals, cultural offerings and leisure activities (cinemas, theaters, shopping malls) as well as other aspects such as the criminal index, climate, geographical area (beach, mountains, etc.).

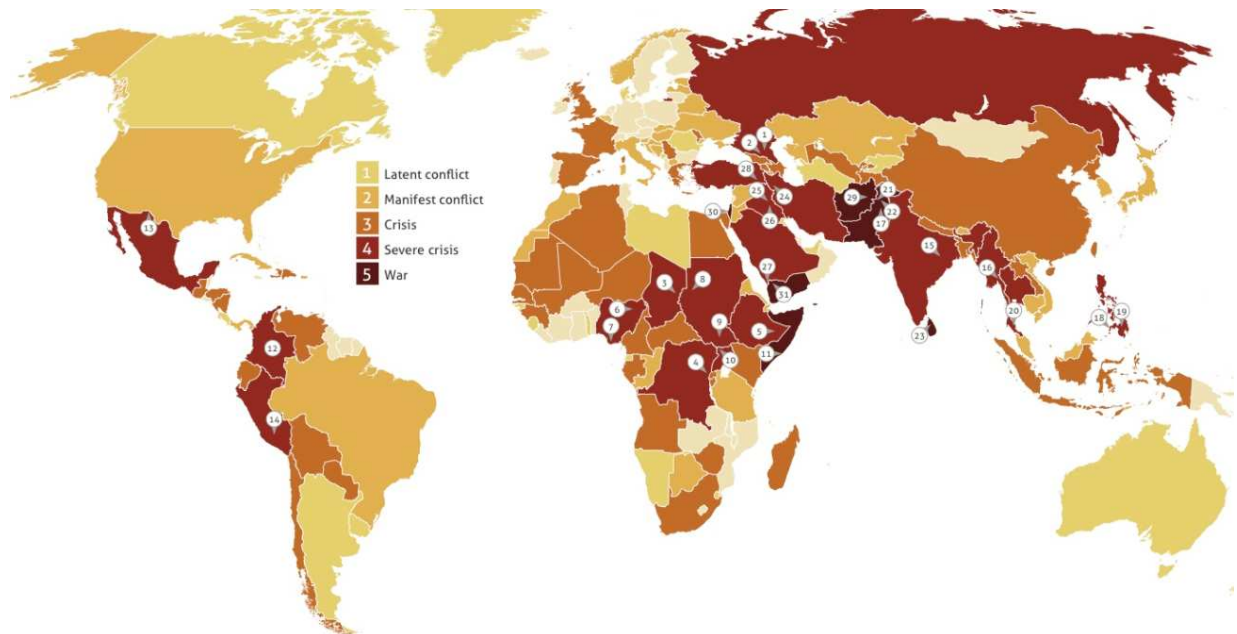
An example of this is that many Japanese companies have chosen the UK as the venue for their business when they decided to settle in Europe, with large sport complexes of golf, spacious homes in the countryside near the areas of industrial development and the ease of purchase and entertainment in big cities.

SOCIAL OR ETHNIC CONFLICTS

Another barrier for many industries to set up their production in a given region is the possible conflict of in the local society.

Social conflicts may impact negatively on production and affect the good functioning of the enterprise.

These conflicts may be due to religious, ethnic confrontation, the existence of any war, disputes of territory, cultural differences, the existence of organized gangs, the excessive difference between social classes, strong crisis, etc. Most of these cases are more common in less developed countries.

Illustration 7 Conflicts in 2009¹³

In the illustration 7 we can see the conflicts around the world in 2009; the companies take this into account when they have to make the decision of location.

EUROPE

COUNTRY	NAME	CONFLICT ITEMS
SEVERE CRISES		
1 RUSSIA	(ISLAMIST REBELS/CHECHNYA)	SECESSION, SYSTEM IDEOLOGY
2 RUSSIA	(ISLAMIST REBELS/INGUSHETIA)	SECESSION, SYSTEM IDEOLOGY

AFRICA

COUNTRY	NAME	CONFLICT ITEMS
SEVERE CRISES		
3 CHAD	(VARIOUS REBEL GROUPS)	NATIONAL POWERS, RESOURCES
4 DR CONGO	(FDLR)	REGIONAL PREDOMINANCE, RESOURCES
5 ETHIOPIA	(ONLF/OGADEN)	SECESSION, RESOURCES
6 NIGERIA	(BOKO HARAM)	SYSTEM/IDEOLOGY
7 NIGERIA	(MEND, IJAW/NIGER DELTA)	AUTONOMY, RESOURCES
8 SUDAN	(DARFUR)	REGIONAL PREDOMINANCE, RESOURCES
9 SUDAN	(VARIOUS ETHNICS GROUP)	REGIONAL PREDOMINANCE
10 UGANDA	(LRA)	NATIONAL POWERS, RESOURCES
WARS		
11 SOMALIA	(ISLAMISTS GROUPS)	SYSTEM/IDEOLOGY, NATIONAL POWER

THE AMERICAS

COUNTRY	NAME	CONFLICT ITEMS
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¹³ Map extracted of Heidelberg institute for international conflict research (HIIK)

SEVERE CRISES

12	COLOMBIA	(FARC)	IDEOLOGY, REGIONAL PREDOMINANCE
13	MEXICO	(DRUG CARTELS)	REGIONAL PREDOMINANCE, RESOURCES
14	PERU	(SHINING PATH)	IDEOLOGY, REGIONAL PREDOMINANCE

ASIA AND OCENIA

COUNTRY

NAME

CONFLICT ITEMS

SEVERE CRISES

15	INDIA	(NAXALITES)	SYSTEM/IDEOLOGY
16	MYANMAR	(KNU,KNLA/KAREN STATE)	SECESSION
17	PAKISTAN	SUNNITES-SHIITES	IDEOLOGY, REGIONAL PREDOMINANCE
18	PHILIPPINES	(ABU SAYYAF/MINDANAO)	SECESSION, SYSTEM/IDEOLOGY
19	PHILIPPINES	(MILF/MINDANAO)	AUTONOMY, IDEOLOGY, RESOURCES
20	THAILAND	(MUSLIM SEPARATISTS)	SECESSION, SYSTEM/IDEOLOGY
WARS			
21	PAKISTAN	(TALIBAN-VARIOUS TRIBES)	IDEOLOGY, REGIONAL PREDOMINANCE
22	PAKISTAN	(VARIOUS ISLAMIST MILITANTS)	IDEOLOGY, NATIONAL POWER
23	SRI LANKA	(LTTE/NORTHERN AND EASTERN)	SECESSION

THE MIDDLE EAST AND
MAGHREB

COUNTRY

NAME

CONFLICT ITEMS

SEVERE CRISES

24	IRAN	(PJAK/KURDISH AREAS)	AUTONOMY
25	IRAQ	(AQI)	SYSTEM/IDEOLOGY, NATIONAL POWER
26	IRAQ	(INSURGENTS)	SYSTEM/IDEOLOGY, NATIONAL POWER
27	SAUDI ARABIA	(AL-HOUTH REBELS)	IDEOLOGY, REGIONAL PREDOMINANCE
28	TURKEY	(PKK/KONGRA-KURDISH AREAS)	AUTONOMY
WARS			
29	AFGHANISTAN	(TALIBAN)	SYSTEM/IDEOLOGY, NATIONAL POWER
30	ISRAEL	(HAMAS/PALESTINE)	SECESSION, SYSTEM IDEOLOGY
31	YEMEN	(AL-HOUTH REBELS)	IDEOLOGY, REGIONAL PREDOMINANCE

Table 2 Table of conflicts

In addition to the existing conflicts in various countries, there are also other important facts that may give us a reference for the status of a country. The Peace Foundation is NGOs that year after year produces an index which arises from the intersection of several variables; as a result, they emphasize the political, economic, personal security, murder, terrorism, the quality of law enforcement, legal system security, etc.

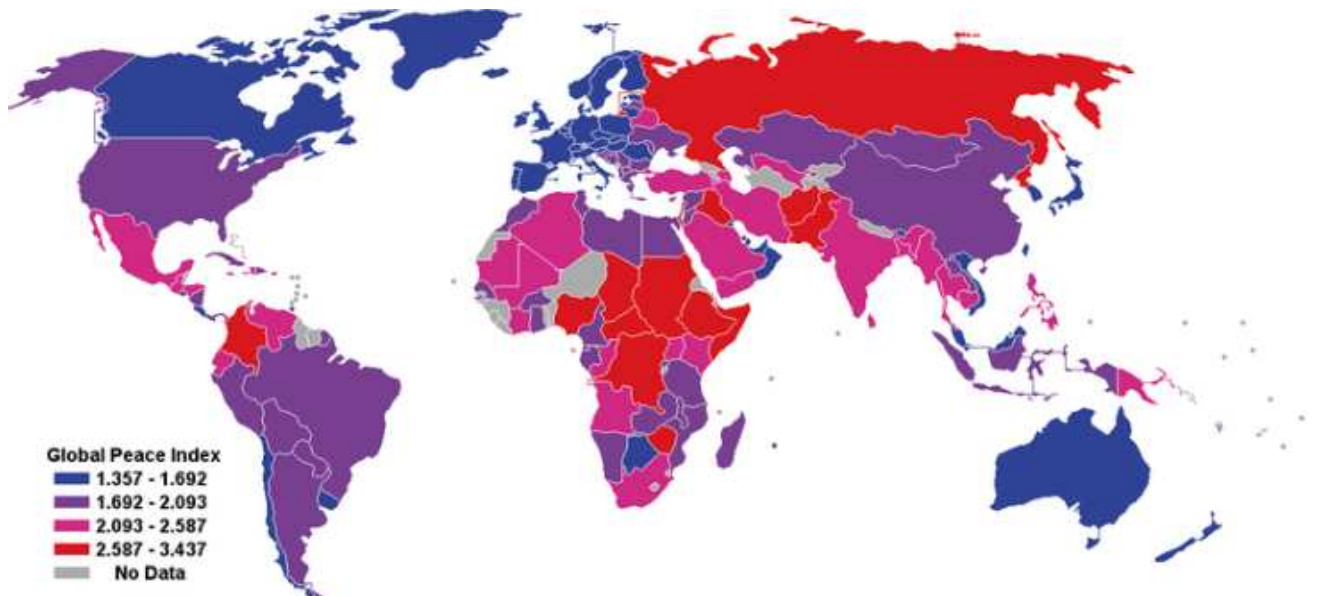


Illustration 8 Global peace index¹⁴

As we can see in the picture, countries like Europe, Canada, Australia and Japan are the most stable areas and with the greatest index peace of the world, on the contrary a great part of Africa, Central America and Southeast Asia are more dangerous areas to life.

INTERNATIONAL REPUTATION

The image of a product may depend on the country in which it has been produced. For economic reasons, many times, the executives plan to relocate their industries since a country can have a workforce much cheaper. However, sometimes this country can have a bad international reputation.

This bad reputation may be due to several factors, related to the poor quality of products coming from a particular country, or for example the possibility that the children working in industries from they are very small, it can even be for reasons unrelated to production like can be just as bad outside view of the country in international context.

One such example was the Mercedes car company, which finally rejected Mexico, much more favorable economically, in favor of Alabama (USA) for the location of its first major plant outside Europe.¹⁵

SINDICALIZATION

It is not good an aggressive unionization for businesses, as it can bring problems like the danger of a strike or an avalanche of complaints. Therefore, it is better for an industry, countries with weak labor laws where the weight of workers is small.

¹⁴ data according NGOs <<the foundation for peace>>

¹⁵ <<Principles of management operations >> Jay H. Renzer and Barry Render (1997)

A union is formed by a group of workers to defend their social, economic and professional interests. They are involved with their work activity on the production site or against the businessman.

In developed countries, social progress led to the unionization, and it was a great step forward in adopting the rights and duties of the worker. But this fact does not occur in all countries, and many countries have no trade unions or have very little power, this is an element to be considered by employers because in these countries will have less conflict since their workers have fewer rights.

The employer also study the history of work in the area, looking at whether there are problems in the past in other industries, such as riots, numerous strikes, demands of workers, labor disputes, efficiency, etc.

PERSONAL FACTORS

The location of many industries, especially those with a personal or familiar origin, also depends on the entrepreneur's preferences. However, the personal criteria usually are taken into account the general factors.

The feeling of employers over their land and their need for economic and advertising boost, or the need for giving work to their countrymen may be some of the reasons to opt for this type of locations.

An example of this factor for a big company is Ferrari, located in Maranello, a family business founded in 1929 by Enzo Ferrari in his hometown, Modena. A company that started to manufacture racing cars and now is the first company of luxury car, having a great reputation for its dedication to quality of their production; where in many steps it is still working with handmade.

A REAL EXAMPLE: THE IMPACT OF SOME FACTORS ON THE DESLOCALIZATION

The following lines are going to deal with an example in which there were factors we have discussed above.

Barbastro is a small town of the Aragonese Pyrenees with just 16,000 inhabitants, in 2004 it suffered a deep crisis after the announcement that its main industry was about to close after nearly 30 years working. It was the French Moulinex factory, one of the major manufacturers of appliance that dominated the European market in the 80s and 90s.

Moulinex was established as a company in 1937 and soon began to have success; the company received many benefits that favored its expansion, creating industries in other countries outside France. It was in the mid 70's when they decided to settle on Spain, because the recent democracy gave many opportunities for foreign investment in Spain and they saw a great opportunity to make a profit due to its emerging economy. Thus they created two companies in two small villages; one was established in Barbastro (Aragon) and another in Urnieta (Country Basque).

The 80s and 90s were years of a great benefit to the company, in addition, towns where Moulinex was found, grew up and became to be established industries, many times, they depended on Moulinex or on other industries attracted by the new opportunities of settling in a fairly new and well connected industrial area. But in the new century all changed, it was in 2001 when the Moulinex company abruptly name itself in bankruptcy, many jobs were lost in France, but a buyer appeared, the SEB Group which seized the company. When it seemed to be a glimmer of hope for the workers, it was the opposite; SEB had other plans for the French firm, and in later years they made many redundancies.

For years, in the Spanish company, it was running in the air the rumor of the closure of the factory, and it was in 2004 when its closure was announced definitely, although the industry was still kept in the Basque Country. The plan of the new owners of the electrical appliance's company was to transpose the company to China because of the emerging market where labor costs were cheaper than in Spanish industries. The negotiations among unions, employers and government were tough. Many months passed without the agreement of the parties, the unions alleged that the company was profitable even more than its Basque namesake, businessmen wanted to relocate at all costs, so they were based on the very labor costs in China.

In this case, many factors more complex than it appeared at first took action. It is assumed that the main factor was the need to decentralize industry and to move it to China, where the cost of living is cheaper, and eventually get more benefits.

But if the company was more profitable Aragonese Why do not close the other Spanish subsidiary. As an answer, the company said that it was more expensive to fire employees from Basque Country because the average age of workers was greater than the one of Barbastro .

But after six years, there are still many doubts about its closure, and many assumptions that were handled and they involve many more complex social factors. These assumptions emerged because they could not understand that a more profitable company was closed before than another less profitable.

The negotiations of the Aragonese government were protested in the conflict. It was ineffective against those of his comrades in the Basque government, as there were numerous meetings with business' leaders while Basques and Aragonese rulers' meetings were pretty limited. In the history of Spain, the Basque Country has always been one of the major industrial powers along with Catalonia, in addition, their political weight in Madrid was much greater than in Aragon. The importance of trade unions in the negotiations was also crucial since they did not reach a deal too favorable for workers, as the company closed, the negotiations were numerous. This is one of main unofficial reasons that were supposed to drive toward the close of Moulinex in Barbastro.

Another reason, but not credible, was the potential and social impact that would have happened in the Basque factory if it had close. Due to the fact that years ago, one of their executive was assassinated by the terrorist group ETA, who refused to pay the revolutionary tax demanded by the ETA for all industries placed in the Basque community, and in that way avoiding another blow to the town as was this.

ANALYSIS OF THE AUSTRIAN AND SPANISH SOCIETY

For to know current realities between Austria and Spain we have to have a preview of their situations, societies, lifestyles, traditions and other information that will give us a best visualization of these two European countries and so can observe their differences and common points and thus to make a clear comparative analysis.

AUSTRIA

Austria is a country in Central Europe, organized as a federal parliamentary republic, a member of the European Union since 1995. Country with no maritime boundary, Austria shares borders with Germany, Czech Republic, Slovakia, Hungary, Slovenia, Italy, Switzerland and Liechtenstein. The Alps dominate the west and south of Austria, while the eastern regions (where Vienna is located) are in the Danube basin. For centuries, until the end of the First World War, Austria was the center of a vast empire that stretched across much of central Europe. Today is a federal republic composed of nine provinces.

Austria is one of the 10 richest countries in the world in terms of GDP per capita and ranks third in countries with higher GDP of the European Union since 2009. It has a social market economy and a well-developed very high standard of living. Until the 1980s, many companies were nationalized. In the past few years, however, privatization has reduced state holdings to a level comparable to other European economies. Together with a highly developed industry, international tourism is the most important part of the national economy.¹⁶

Germany has historically been the main trading partner of Austria, making it vulnerable to rapid changes in the German economy. But since Austria became a member of the European Union, have established closer links with other European Union economies and reduced their economic dependence on Germany. In addition, the number of EU members has prepared an influx of foreign investors attracted by access to the single European market and proximity to the EU.

Austria is an industrially developed country with an important component in services. Services account for 67.5% of the economy, however, the remaining 30.3% includes major industrial sectors such as machinery manufacture, steel industry and the chemical industry and automotive. Austria also is internationally known for the sophistication of the electronics industry, especially electronic products tailored.

While some industries, such as iron and steel and chemical plants are large companies that employ thousands of people, firms in Austria are relatively small on an international scale. In general, it dominated by SMEs. Only 167 companies have more than 1,000 employees.

¹⁶ <http://www.imf.org/>

SPAIN

Spain is a member nation of the European Union, established in social and democratic state of law and whose form of government is a parliamentary monarchy. The country, with its capital in Madrid, took the greater part of the Iberian Peninsula, to which is added the archipelagos of the Balearic Islands (in the Western Mediterranean Sea) and the Canary Islands (in the northeast Atlantic Ocean), as well as the North African cities of Ceuta and Melilla.

Spain has land borders with France and the Principality of Andorra to the north, Portugal in west, and the British territory of Gibraltar to the south. In its African territories, shares land and sea borders with Morocco.

Spain is currently the ninth world economic power.¹⁷ Spain has traditionally been an agricultural country and is still one of the largest producers of Western Europe, but since the mid-1950s industrial growth was rapid and soon reached a greater weight than agriculture in the economy. A series of development plans, which began in 1964, helped expand the economy, but in the late 1970s began a period of economic recession due to rising oil prices and increased imports with the arrival of democracy and open borders.

Subsequently, it increased development of the industries of steel, shipbuilding, textiles and mining. Currently, the influence of services in economy and the Spanish society is clear both in the gross domestic product (contribution in 2005: 67%) and in the employment rate by sector (65%). Income from tourism allows improve the balance of payments. Spain is the second country in the world that receives more foreign tourists, using data from the World Tourism Organization, just behind France, enjoying a share of 7% of world tourism.¹⁸

Spain produces, amongst others, textiles, iron and steel, motor vehicles, chemicals, clothing, footwear, ships, refined petroleum and cement, standing out for its value industrial sectors of food, beverages and transport equipment, including most notably the automotive and aerospace industry. Spain is one of the world's leading producers of wine production in 2003 reached 30 million hectoliters. The steel industry, before his conversion of the 1990s, was concentrated on Bilbao, Santander, Oviedo and Aviles. The energy sector in Spain is approximately five percent of the country's gross domestic product, its importance goes beyond its share in total output, constituting a strategic sector of needed by all branches of economic activity, deemed necessary energy for any kind of production of goods and services. Industry, sector where bet much in his time because the problems of scarcity of energy resources in national territory. Also noteworthy the mining that has lost much weight but during the last decades of the twentieth century was a highly exploited.

¹⁷ <http://www.imf.org/>

¹⁸ *According World Tourism Organization*

There are differences from one country to another, but analyzing some data we can see that also they have some data in common. The Central European country has a population of about 8'4 million while Spain has nearly 47 million, plus its surface is six times more than the country of Austria. In contrast, the population density is 91 inhabitants per km in Spain similar to Austria with the 97.

One of the strangest coincidences are in the human development index (HDI) than in its last schedule, in 2009, established a single index for both countries with an HDI 0'955 exactly in the position 14 of the most developed countries world, also tied with Denmark.

1		NORWAY	0'971	11		LUXEMBURG	0'960
2		AUSTRIA	0'970	12		FINLAND	0'959
3		ICELAND	0'969	13		USA	0'956
4		CANADA	0'966	14		<u>AUSTRIA</u>	<u>0'955</u>
5		IRELAND	0'965	15		<u>SPAIN</u>	<u>0'955</u>
6		NETHERLANDS	0'964	16		DENMARK	0'955
7		SWEDEN	0'963	17		BELGIUM	0'953
8		FRANCE	0'961	18		ITALY	0'951
9		SWITZERLAND	0'960	19		LIECHTENSTEIN	0'951
10		JAPAN	0'960	20		NEW ZEALAND	0'950

Table 3 Human development¹⁹

This is a list of countries by Human Development Index included in the Human Development Report of the United Nations Program on Development, based on data compiled in 2007 and published on December 18, 2008. This list covers 179 Member States of the United Nations (out of 192), in Table 3 we can see the 20 countries that top the list.

The HDI (Human Development Index) is a comparative measure of life expectancy, literacy, education and living standards for countries around the world. It is a standard unit for measuring the quality of life and especially the protection of children. It is used to distinguish whether a country is developed, is developing or is underdeveloped, and also to measure the impact of economic policies on quality of life.

UNEMPLOYMENT

Austria and Spain are two countries that are part of the European Union, Spain entered in EU in 1986 and Austria nine years later, in 1995, it was then that trade relations between Austria

¹⁹ Last statistics of the Human Development 2009- Report (according ONU)

and Spain showed a very dynamic development, with significant increase in many aspects for both, but unbalanced with a strong surplus in favor of Austria.²⁰

One of the major problems of the current situation is unemployment in Europe that has produced the global crisis we are suffering; the latest data for June are as follows.

	MALES	FEMALES	TOTAL
<i>EURO AREA (15)</i>	9'8	10'1	9'9
<i>EURO AREA (27)</i>	9'7	9'5	9'6
<i>AUSTRIA</i>	3'8	4'1	3'9
<i>SPAIN</i>	19'8	20'2	20'0

Table 4 *Unemployment June 2010*²¹

The data in Table 4 show us a huge difference between one country and another, we can say that Spain has always been characterized by a high unemployment rate, but after the crisis the data that Spanish unemployment has reached has been scandalous, arriving at 20%, which is 5 times the existing rate in the central European country with an unemployment rate of only 4 percent. This data can tell us that the crisis has hurt more to Spain, but there are other problems as the Spanish labor system has proved weak, so the crisis has affected Spanish society but also the recovery is slower than in other euro zone countries.

After the crisis, the Spanish government has implemented a series of measures to alleviate the bad economic data of recent years and present a cleaned and committed image to the other countries in the European area, many of these measures have been totally antisocial and very protested by the population and have been among others: to increase the retirement age, the increase in VAT, cuts in public works, reducing salaries to civil servants etc. Other measures being studied has a lot about Austria and is the implementation of the Austrian labor system, which in the following lines will explain the root of the measure.

IMPLEMENTATION OF AUSTRIAN MODEL OF EMPLOYMENT IN SPAIN

As mentioned above, after the serious crisis which has suffered in recent years Spain, the Spanish government has decided to implement the Austrian model of work. But not one

²⁰ *Economic Newsletter ICE (Fernando Die Ortega)*

²¹ *According to data from Eurostat 2010M06*

hundred percent implemented, only a few aspects of this model. The Austrian model, work waiver severance pay in exchange for opening an individual savings account in which firms enter an amount proportional to the salary account, to which you can access in case unemployed for a dismissal, or at the end of our working life as a complement to our pension.

The theoretical advantages of this model are several, including:

1. This is a single contract; legal duality disappears between permanent and temporary workers.
2. Compensation for dismissal has been paying during the employment relationship with the company, so the cost of firing a worker is the same, namely zero.
3. The compensation accumulated by employees is incorporated in their specific human capital, in the increasing wages with seniority in the company. In any case, this human capital could be the key element in the dismissals that companies have to deal because of falls in demand.
4. The adaptation to technological change and the need for adjustment in the management of human resources would also be facilitated by reducing the cost of replacing workers with more generic human capital (the younger) compared to those of age advanced. In short, the latter should updated, invest in themselves and require a better management and efficiency of training systems.
5. The accumulation of compensations for dismissal not discourage the voluntary mobility of worker, because exist the portability of the account from one company to another. Again, the most senior workers have greater incentives to invest in themselves compared to a traditional dismissal regulation. This we could come well in these times of sectoral adjustment.
6. We can only access the account, if we have been working a minimum time in the company (three years in Austria), which limits the possible layoff agreements between workers and firms.
7. Companies no longer need to have provision of funds to pay for these dismissals.
8. There is no retroactivity, and the move to the new system is voluntary. The transition from the current dual model may be faster than it would generate another single contract: at the margin, a significant proportion of workers (those with little antiquity in the company or who consider that their probability of dismissal is low) would rather go to the new system (in Austria, 40% of labor relations was governed under the new system, after three years of the implantation).
9. Revitalize the capital market, by creating a new fund with more substantial amounts.
10. A new pillar for the pension system, which is really necessary at this time.

The advantages of the Austrian model make sense only in the pure model, the mixed model is to be implemented in Spain, could lose some of its effectiveness.

It would not be a single contract, they still remain differences between temporary and indefinite contracts, and would set up somewhat lower compensation (for example, the current contracts for promote the employment (33 days per year of service)).

In any case, the application of the Austrian model assumes a reduction of severance pay for those who actually experience it and additional compensation for those that not experience it in your life. Thus, in principle, the model change is detrimental to those groups traditionally more vulnerable to dismissal and those companies that currently make greater use of internal flexibility.

Interestingly, the Austrians were departed on a model of increased compensation to seniority, and hence the evidence on this change of model could, in principle, give an idea of the advantages of a model against another.

With the new model, we also must be assuming new problems of moral hazard. Problems that, maybe, are not as important in work culture Germanic, but in Spain could have more to be feared.

But in addition, the profile of productivity in many jobs over time in the company is not growing (Spain is the country with more than pawns in Europe, after Malta) and yet have to bear cost increases supplements work by seniority. For this, many companies, before assuming the risk of having to lay off workers before retirement and that the dismissal is more expensive with increasing seniority in the company (being that increase the moral hazard with learning or the probability of a shock with time for employee) prefer to hire temporarily, hence the why in Spain there is a high rate of temporary employment.

What fees should apply?

These fees are probably the crux of the problem facing today social partners. In Austria, set a fixed fee of 1.53 on wages, it appears that this share was revealed as insufficient to meet such objectives as that the new system became a pillar of the pensions system. In Spain case, the starting point is very different from the Austrian.

- (A) The Spanish allowances are much higher than those that the Austrians had in 2003 (time of system implementation).
- (B) The scene for the profitability on capital and real wage growth in 2003 is very different from today, which means again assume a greater share if Spain passes to the pure model and if had a similar job market like in Austria.
- (C) Since the application of this model, likely, would carry a reduction of Social Security contributions, should be cut some kind of public funding, which is never a very action popular.
- (D) Exist long distances between Austria and Spain in data, although Austria is also a tourist country, indeed in 2007, before the crisis, the weight of employment (population 15 to 64 years old) in the hotel and catering business was similar to Spanish. It was also the country of EU15 with the trade with more weight on employment, but that if he had fewer jobs in construction. Still, its temporary rate was between 7 and 9% and their unemployment rate was 4-5% when they decided to carry

out the reform, data that are light years ahead of the Spanish, which have 30% temporary employment, and 18% unemployment.

- (E) Austrian labor supply is much more trained than Spain, his school abandon is of 10% (compared with 30% in Spain), only 19% of the population aged 25-64 with low educational level (versus 49% in Spain). A curious fact is that in 2003, Austria was the European country with the largest share of its population in training throughout life²², an average of 89.2% in 2003; opposite to 24.5% in Spain (high in 55-64 years old: 92.5 versus 13.7%). That is, its workforce, is more formed, may have a less inelastic demand for protection than the Spanish.
- (F) Finally although Austrian spending on active and passive policies are not so different from Spain (1.9 against 2.2% of GDP in 2007), spend almost twice as costs of state budget for an unemployment rate of 5%, and a 2.5% training expenditure (nearly six times less in spending on employment incentives). In these circumstances, obviously it is easier to reduce redundancy payments, to devote more and better resources for the reintegration in the event of dismissal.

In conclusion, at this point, it is difficult to do a forecast of the implantation of this model in Spanish society, and anything we say will be speculation and hypothesis, and only time will tell us the correct or not of the implementation of the Austrian model in the work system Spanish.

²² *(depending on Lifelong Learning based on Eurostat data)*

ANALYSIS OF SPANISH AND AUSTRIAN INDUSTRY

The industrial fabric of Austria and Spain are very different and we will analyze them to know the current situation of each country to understand what types of industry works in each region, and why reasons these industries chose these types of location and we can see what factors that have influenced its location. For all this we need to know that types of industry are in each country, and we discuss it in the following lines.

Industrial activities are grouped in sectors that are identified by: the final destination of goods produced or according to the nature or origin of raw materials used.

According to the first criterion, we distinguish between basic industries, capital and goods for use and consumption.

Basic industries transform raw materials into products semi processed, that become raw materials for other industries, steel and petrochemical industries may be examples of this type of industry. Moreover goods industries, machines, tools, products are used in other industries in their manufacturing industries. Finally use and consumption goods transform materials with different degrees of development or different products in goods that are used or consumed directly by the consumer.

There are other ways of classifying industrial sectors, considering their general characteristics and in this way, we distinguish between the traditional industrial sectors, the dynamic sectors and leading sectors.

SPANISH INDUSTRY

Among the traditional sectors of Spanish industry are those associated with metals.

The basic metallurgy, both for be the basis for industrial activities as well as its economic, employment generation, access to other economic sectors such as mining, etc., Is one of the main sectors of Spanish industry.

The metals industry's foremost iron, namely, steel, in two forms: integrated steel industry, that which is obtained into the blast furnace steel from iron ore and non-integral, which it gets from electric furnaces the recast of the scrap.

The steel industry was consolidated in the Basque region and then spread to the Mediterranean (Mediterranean Blast Furnace) and Asturias (Ensidesa). He had a big boost in the actions carried out by National Institute of industry, which built large mills, operated by

public companies. It's oversized in relation to the needs of the Spanish was a cause of his crisis, so it was necessary a restructuring which had important social implications.

The European Union took some social measures in the wake of this crisis that were aimed at helping workers who lost or changed their job. On the occasion of the steel crisis, the April 28, 1993, the European Commission said in a note the conditions which governed the social measures. In this regard, is reserved to the implementation of the program on job reduction, adaptive aids that would be provided within the framework of the ECSC, early retirement aid, and aid for the reintegration and unemployment benefits.

Also is necessary say that the program resides II (1995-1999) promotes, under the structural funds, action on the environment of siderurgy areas, the modernization of economic and social infrastructure, alternative economic activities and pilot plants.²³

A related sector to the steel is that of the metal processing sector, which covers a wide range of products ranging from hardware to the machine, this sector is associated with small and medium enterprises and has a greater spatial dispersion, and are located in almost all the Spanish territory, although more in three classical sites of the Spanish industry: Basque Country, Madrid and Catalonia.

More recent is the manufacture of household appliances which is also linked to the metalworking industries. This sector was of great significance in the last decades of the twentieth century for its outstanding condition of supplying goods for the modern household consumption, its expansion was facilitated by transformations in society in the 60s, the adoption of new sources energy for domestic use (butane, propane, natural gas) and the spread of industry from the cold. It was an industry characterized by medium-sized companies, but then it would be restructured by industrial concentration, in the '90s many companies relocated their industries to other countries with growing economies where production was cheaper, as we discussed in previous sections, the company Moulinex was one of them.

Shipbuilding is one of the most important sectors of our traditional industry. It is heir to the old bank carpentry, and although the ships are built on the premises known as shipyards, the material used in construction is steel, which has allowed the increase in tonnage. On the initiative of the INI (Institute national of industry) major were built major shipyards in significant strategic coastal enclaves (Ferrol, Cadiz). Its corporate structure was that of large public enterprises (Astano, Bazan) specializing in the construction of oil tankers and barns, and with which Spain occupied a privileged place in the list of countries builders. In addition to the large shipyards, there are smaller companies involved in construction of fishing vessels or pleasure vessels.

The oil crisis affected the shipbuilding industry on one hand, structural weaknesses were evident in Spanish shipyards, on the other, rising cost of crude forced to transport in average tonnage vessels. Since 1990, shipbuilding declined and the industry concluded a tough industrial restructuring, which led to unemployment and social effects, which were treated of reduce it with incentives and concession of areas of urgent reindustrialization (Bay of Cádiz).

²³ *Directorate General for Research of the European Parliament*

The sectors of textile, leather and footwear are also very important in the Spanish industry. The Catalan textile industry was one of the pillars of industrialization, but with the passage of time experienced profound changes, some related to the replacement of organic fibers (wool, linen, cotton) for chemical fibers, and others related restructuring of enterprises, which have increased in size from many small factories to focus on more competitive production units in places such as Navarra and the province of Zaragoza, but in recent years companies have been forced to take their produce to countries, mainly India and China, where production and transport is cheaper than production in Spain even though they are not always the most desirable qualities.

The clothing industry is a branch derived from the textile industry that has emerged as the population demand clothing instead of tissues. It consists of a swarm of small industries, like footwear, is extensive, but extends, especially in the Mediterranean regions.

Other industries such as automotive, chemical and food, have a more dynamism, which comes from their status as suppliers of goods and products is absolutely essential in the functioning of industrial society. Usually, they are activities with a high technological component, that they need capital investment of large multinational and large installations.

The automotive sector is developed in Spain in the 1960s, being, in turn, one of the drivers of economic growth. It flourished under state protection and under investment by multinational brands and the INI. Is an area of great influence on the economy by inducing effects and its ability to activate the many companies that receive components and that they crowd near the plant where they make cars.

Spain has major auto manufacturing plants distributed throughout the country and is one of the export sectors of our economy as well as being in many Spanish cities main economic engine such as Volkswagen (Navarra), Renault (Castilla y Leon), Ford (Valencia) or General Motors (Zaragoza). The automotive industry was affected by the restructuring, which was very focused on the technical and financial reorganization, which was possible with the help of foreign investment and state. In addition, the current crises have also greatly affected this sector, and have had to take various measures, such as cuts in templates and government aid.

The chemical industry is built around the petrochemical and chemical processing industry. The first is basic chemistry that takes place in large industrial complexes, usually associated with oil refineries (Huelva, Algeciras, Cartagena, etc.). Virtually all of these capital investments, usually they are from abroad.

The chemical industry obtains various products such as paints, fertilizers; adhesives etc., which are produced in manufacturing facilities much smaller. They have a high degree of spatial dispersion, although their preferred location matches the most industrialized regions of the country: the Basque Country, Catalan coast and in the metropolitan area of Madrid.

The food industry has grown in modern societies. It is a process of transformation of agricultural products imposed by the dissociation between producing and consuming areas. This sector is characterized by diversity in the nature of the products, the transformation processes, business structure, the geographical distribution of plants, etc. In general,

dominated by small and medium-sized factories that mostly coincide with the areas of irrigation, but also have established large multinational companies, whose presence could be very important in industries such as dairy products, the oil, that of sugar, etc.

At the forefront of the industry and a clear projection of the future are high-tech sectors, which provide discoveries, new materials, methods and means for the improvement of industrial production. From these elements, there is talk of a new industrial revolution. Its importance lies in the unusual importance that technology has reached in the contemporary world, where the value of industrial goods is not so much the material its components such its technology components.

This is a sector that integrates the various branches of electronics and its development has been driven by management, as is absolutely necessary for the remaining industrial sectors.

AUSTRIA INDUSTRY

Austria is an economically developed country with a free market economy with predominance of the tertiary sector. At first, the economic development of this young and dynamic Austrian republic was seriously hampered by a series of political events of the time. On the one hand the disintegration of the Austro-Hungarian Empire and the world wars caused severe hardship for the country.

Over time, Austria took advantage, thanks to the assistance provided by the Marshall Plan, resulting in the beginning the sustained economic boom on the steel, mining and energy sector and improving communications which has made Austria is currently one of the economically States World's most developed.²⁴

Trade relations with Germany are very narrow and with ex-socialist neighbors. Since the fall of communism in 1990 a large number of Western companies have chosen this country as a base for commercial activities with the rest of Europe. Its strategic geographical location in the heart of Europe makes corridor between Eastern and Western. Companies that are destined to exports have helped the country has become in a core of modern means of communication.

The country has the following resources: deposits of oil and natural gas, minerals such as iron, lead, kaolin, salt, graphite, antimony, zinc, aluminum, magnesium, copper, lignite, wood and others.

Despite the natural wealth that Austria has, you must import large amounts of energy and minerals to maintain the operation of their industry, so its energy dependence is high. Despite this dependence on energy, Austria has a large amount of electric energy production stations, so making it the eighth largest exporter of electricity in the world, besides they are the country with the highest percentage of renewable energy sources on the European Union with respect to total consumption, counting that on their territory does not have nuclear power plants. And its hydropower production satisfies the two-thirds of the electricity needs of the country.

²⁴ *The Marshall Plan in Austria (Günter Bischof, Anton Pelinka, Dieter Stiefel)*

Its industry is based on small and medium manufacturing industry; it plays a prominent role, which traditionally has some bases which are the manufacture of products such as wood, glass, textiles and pottery artisans.

Add that thanks to its extraordinary cultural heritage and the beauty of the landscapes in Austria, the country has developed an industry linked to tourism.

The steel, along with the production of transport equipment, weapons, agricultural machinery and equipment occupies a strategic place within the whole of the Austrian industrial production, where we also found other important basic industries such as textiles, petrochemicals, food factory and vehicles.

It also has many major international products such as innovative plastic products as impermeable layers, pipes and pipe components, concrete slabs and semi-finished products. Develops, manufactures and distributes instruments for measuring physical variables of premium quality such as density, temperature and viscosity, also they manufacture high-precision mechanical components.²⁵

Definitely Austria is one of more prosperous country and richest of the world, although its economy has been decreasing due to the recession of the other industrialized countries.

COMPARISON

Europe

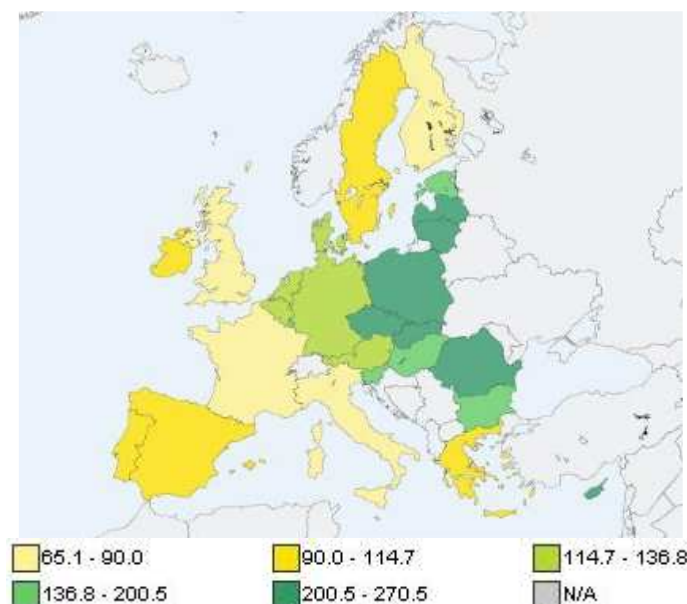


Illustration 9 Export volume index²⁶

²⁵ *Economic newsletter ICI*

²⁶ **Volume index = value index / unit-value index** *Value index: The value index is calculated as the percentage change between the trade value of the current month and the average monthly trade value of the previous year.*

As we can see from the map 1.1 where we see the indices of export volume, where the countries of Central Europe are those that export have higher rates, while the peripheral states as the Iberians, Ireland and Greece have a smaller volume of export. The specific volumes of Austria and Spain are 120.6 and 108.1 respectively.

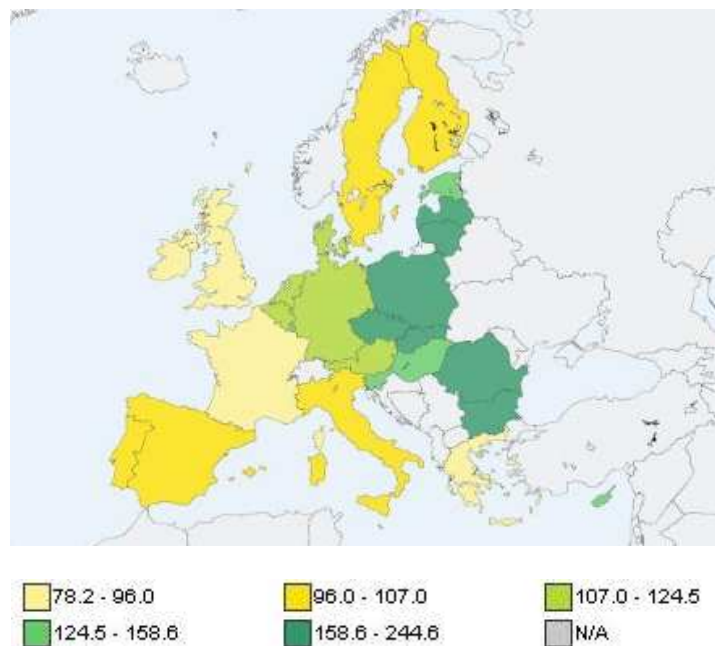


Illustration 10 Import volume index

It is also curious that the countries of central Europe that have more volume of imports and countries like France, Greece, Ireland and Britain have lower import volume, the specifics of Austria and Spain are 111.7 and 102.5 respectively.

A clear comparative data is of imports and exports of both countries during the year 2009.

Spain

Country by origin groups	Percentage	
	Imports	Exports
Total	100,0	100,0
Europe	60,2	72,7
Africa	9,4	5,4
America	9,6	8,9
Asia	19,9	8,2
Australia/Oceania	0,9	1,1

Table 5 Spanish imports and exports

Austria

Country by origin groups	Percentage	
	Imports	Exports
Total	100,0	100,0
Europe	83,6	82,6
Africa	1,2	1,5
America	4,0	6,5
Asia	11,1	8,6
Australia/Oceania	0,1	0,7

Table 6 Austrian imports and exports

We can see that there is a clear difference between the two countries, and it is the percentage of imports and exports in Europe that Austria makes are much higher than those of Spain, because Spain has a lot of involvement in the continents of America and Africa, as of the close relation with Latin America and the proximity to Africa, especially in its trade relations with Morocco.²⁷

Trade Relations

In the following lines we see the trade relations between the two countries in the last year; in the first two tables (Table 1.3 and Table 1.4) it is the list of the 10 communities with greater economic relationship in both imports and export.

In the following two (Table 1.4 and 1.5) it can see the products that generate more money in trade between the two countries.

AUTONOMOUS COMMUNITY		SPAIN-> AUSTRIA VALUE	NUMBER OF OPERATIONS
1	CATALONIA	536	32667
2	BASQUE COUNTRY	124	6956
3	ARAGON	111	1518
4	MADRID	101	7092
5	C.VALENCIANA	100	8673
6	NAVARRA	79	835
7	CASTILLA LEON	75	1097
8	ANDALUCIA	62	2481
9	GALICIA	52	5141
10	MURCIA	47	1668

Table 7 Trade export relations Spain->Austria

²⁷ www.eurostat.com

In what follows in trade export relations between one country and another were numerous, exactly Spain made 71.171 exports with a value of 1.340 billion Euros, with motor vehicles and organic chemicals as products more exported. Catalonia is the region with more exports with a total value of 535 billion Euros, followed by the Basque Country and Aragon with 124 and 111 billion respectively.

	AUTONOMOUS COMMUNITY	AUSTRIA-> SPAIN VALUE ²⁸	NUMBER OF OPERATIONS
1	MADRID	478	36178
2	CATALONIA	477	29814
3	ARAGON	265	4338
4	C.VALENCIANA	115	7339
5	BASQUE COUNTRY	111	5917
6	GALICIA	58	2828
7	CASTILLA LEON	40	3062
8	ANDALUCIA	34	4353
9	CASTILLA MANCHA	33	4493
10	ASTURIAS	25	1498

Table 8 Trade export relations Austria->Spain

In regard to imports, Austria performs with Spain 112 562 operations with a sum of just over 1.725 billion Euros, being the most imported product, the mechanical and electrical appliances, being Madrid, Catalonia and Aragon in that order for regions receiving more products from Austria.

	PRODUCT SPAIN-> AUSTRIA	VALUE	Nº OPERATIONS
1	MOTOR VEHICLES, TRACTORS, VELOCIPEDA AND OTHER LAND VEHICLES, PARTS AND ACCESSORIES	417	2935
2	ORGANIC CHEMICALS	132	362
3	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS OF THESE MACHINES	82	7017

²⁸ Value in billion €

4	PHARMACEUTICALS	77	1166
5	EDIBLE FRUIT AND NUTS, PEEL OF AGRIOS O SANDÍASCITRUS FRUIT OR WATERMELONS	69	1386

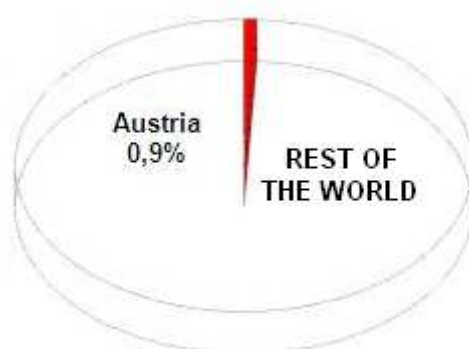
Table 9 *Products more exported Spain->Austria*

The product most exported by Spain in Austria is the vehicles with a big difference from the rest, being almost 32 per cent of total Spanish exports in the Austrian country.

PRODUCT AUSTRIA-> SPAIN		VALUE	Nº OPERATIONS
1	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS OF THESE MACHINES	433	15425
2	MACHINES, EQUIPMENT AND ELECTRICAL EQUIPMENT AND SOUND AND IMAGE APPLIANCES AND THEIR PARTS	171	10666
3	MOTOR VEHICLES, TRACTORS, VELOCIPEDA AND OTHER LAND VEHICLES, PARTS AND ACCESSORIES	143	5958
4	PLASTIC AND ITS PRODUCTS	124	15138
5	PHARMACEUTICALS	65	1088

Table 10 *Products more exported Austria->Spain*

Moreover, the most exported Austrian product in Spain is the mechanical devices and its applications, at a rate of 25 percent of total Austrian exports in Spain.²⁹

**Illustration 11** *Spanish exports*

²⁹ DATABASE OF FOREIGN TRADE (agencia tributaria)

Exports to Spain in Austria are the 0.9 percent of total exports to Spain carried out worldwide.

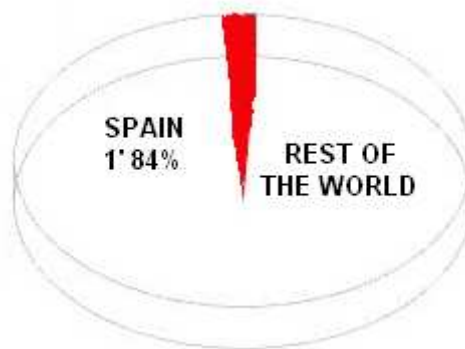


Illustration 12 Austrian exports

By contrast Austrian exports in Spain are the 1'84 per cent of total exports, due to increased commercial relations of Austria with the European countries, Spain has a lower percentage because their trade relations with countries of American or Africa are higher.³⁰



Illustration 13 Spanish imports/exports relation

Spain is able to export 78 euro cents for each euro imported.



³⁰ national institute of statistics (www.ine.es)

Illustration 14 *Austrian imports/exports relation*

On the other hand Austria is able to export 1'28 Euros for euro imported, despite that Austria is a smaller country and have a lower total volume of exports and imports.

The export growth has driven the recovery in Austria. But the recovery remains fragile. It is expected to improve this parameter in the second quarter of 2010.

However, the recovery of industrial production remains weak, partly because corporate loans have fallen significantly. According to the National Bank of Austria, new business loans granted by banks fell 1.7% in 2009, a trend that has continued in 2010.³¹

The Spanish data are not as optimistic as the Austrians and the recovery appears to be slower. Strong social measures and cuts the Spanish government (especially labor reform) expects to be a salutary lesson and to attract new business investment and help the country's growth.

³¹ *According credit and caution (Atradius Group)*

SOCIAL AND CULTURAL FACTORS IN AUSTRIA AND SPAIN

LOCAL GOVERNMENT

Since joining in the EU, Austria and Spain have taken all import regulations and customs regime of the European Community. In the European internal market there are no tariffs. The EU has a common external customs. The two countries are governed by similar customs laws.

Customs taxes and tariffs outside Europe

Import tariffs are about 4%, but nearly 60% of all goods can be imported into the EU free of customs duties. The tariff of the two countries is based on the EU integrated tariff (TARIC). The EU may also suspend tariffs, provided that the imported products are not manufactured in the EU.

The Generalized System of Preferences (GSP) determines the conditions for preferential tariffs on imports from developing countries. Additionally there are several special agreements between member countries of the European Union and developing countries. To be eligible for these preferential tariffs need a certificate of origin.

The import regulations of the EU, in principle, are liberal. However, there are some exceptions and restrictions: import quotas, antidumping duties, UN embargoes

There are special rules for certain products, such as: textiles, iron and steel (Eastern Europe), agricultural products, weapons, dual-use goods or to trade with China.

It is also worth noting that in Austria and Spain are in force the rules on packaging, import regulations and customs regime of the European Union. The EU regulation is, in principle, liberal, also include the CE Certificate, that we can observe in many products. The EC certificate confirming compliance with basic safety standards set by the EU of products such as machinery, construction materials, equipment telecommunications, medical devices, sporting goods, toys and explosives. Products with this certificate can be marketed and sold freely in all countries of the EEA (European Economic Area) without further testing of the product in the country of destination.

AUSTRIAN GOVERNMENT AID

The State and the Federated States Austrians invest million Euros in research and development. In addition, there are investments in R & D from companies.

The R & D commitment of the international industry in Austria is also changing dynamically: 65% of expenditure on R & D of heavy industry is run by Austrian multinationals.³²

Other measures taken by the Austrian government incentive schemes are, the research exempt amount of 25% or 8% premium to research are structural measures such as the creation of the Austrian agency for promoting research.

These measures speak very well on the bet that makes the Austrian country about research and development, which makes being in the forefront of global technology.

SPANISH GOVERNMENT AID

The Spanish government invests a significant portion of their budgets on aid and subsidies to industry.

Much of this aid has gone to the restructuring of certain types of industries such as manufacturing or shipyard. Also they offered subsidies to industries that promote clean and renewable energies, and green industries that are environmentally friendly.

Local governments also receive grants from the government for improvements in local industrial sites to upgrade and accommodate current needs.

Also includes commissions and funds for the revival of the economy, funds that often they are destined for industry, an example can be the ICO Line. The ICO is working for growth and improving the distribution of national wealth and promote economic activities that by their social, cultural, innovative or ecological that deserving priority attention.³³

In final accounts, the Spanish government in recent times is designed aids to the re-industrialization of the industry and to encourage new forms of clean energy.

LABOUR LEGISLATION AND LEGAL FRAMEWORK

In Austria, the working environment is fairly traditional, with few complaints from workers. Working conditions depend on the type of contract you have.

Austria has some very strict laws for protecting employees, some of which date back to the 50s. Although changes are being made to adapt to an increasingly competitive environment, working conditions are still good.

The normal working day is 8 hours a day, five days a week. Extra hours are paid. You are entitled to 25 days paid holiday a year, although you can catch more days paid on certain occasions (if your child is sick, moving house, etc.).

If you get sick, the company is paying you and you can usually stay home on the first day without any obligation. From the second day you have to get a medical certificate. In case of prolonged illness, you will receive money from social security. In Austria, social security is

³² *Advantageaustria.org*

³³ *Ministry of Industry ICO Line*

compulsory and is usually automatically deducted from wages. Self-employed are also obliged to pay social security.

In Spain, working conditions are defined for the Spanish Constitution of 1978, the Workers' Statute, the Law on Prevention of Occupational Hazards and the royal decrees, laws and other legal rules that implement them.

Besides it establishes collective agreements that apply in the sectors of production or particular enterprises.

Collective agreements are essentially agreements freely adopted between employers and employees to set standards (normative aspect) that will govern the working conditions in a given workplace (company or sector) and the rights and obligations of the parties (appearance bonds), always marking the minimum required by law.³⁴

SOCIAL ATTITUDES TOWARDS ENTERPRISE

Austria and Spain are countries where are all kind of industries, but sometimes are social actions against some of them that hinder the possibility of establishing industries in these countries.

In Austria for example there is no nuclear industry so there is no nuclear power plant in its territory. Regarding the food industry, Austria maintains the ban on growing GM maize despite attempts by the European Commission lift the ban on genetically organisms modified.

Spain has 8 nuclear reactors in six different plants of the peninsula, which raised many objections for be eradicated by high danger of contamination.

Other industries that pollute the environment like petrochemical industries also raise protests by environmental groups. The fur industry for the potential treatment given to animals also it has a negative social attitude.

A curious case is that produce few years ago in Spain, where it came from a stream of movement that intended to carry out a boycott of products produced in Catalonia and it raised at people buy another brand of a non-Catalan product.

QUALITY OF LIVE

Many industries often choose less developed countries where wages are low and local laws are flexible, but the quality of life of these countries is low. This can be useful for industries where there is little management and what is really needed is cheap labor. But there are industries that need a lot of managers and technicians engaged in business and might need to move where it is to locate the industry.

Austria and Spain are two European countries where the quality of life in general is very good.

³⁴ *Ministry of Labor and Social Security, Royal Legislative Decree 1 / 1995, 24 of March*

The quality of life in Austria is exceptional and has high quality in social services, in health provision as compatibility between work and family.

The social security system in Austria is comprehensive, mandatory and funded through taxes. Includes social security benefits for all employees and their relatives in case of medical care, unemployment, maternity and retirement, and public welfare for citizens in need.

It should also say that Vienna has been named the second consecutive year the city with the best quality of life in the world³⁵. To determine the quality of life index, is analyzed in total 39 key factors, including political, economic, socio cultural, medical, educational, transportation and utilities, recreation, consumer, housing, climate, natural hazards, pollution environmental and personal safety.

Political stability, security, health care, leisure and entertainment, restaurants, colleges, training, culture, traffic, environment and living costs have been instrumental in the election of Vienna. Spain contributes two cities in this ranking but in positions 44 and 48.

The combination of economic prosperity and family stability has placed Spain in the tenth position of the index of quality of life³⁶. The report combines objective data, the average income of countries or their life expectancy, with more intangible factors such as quality of family relationships and the strength of their social life. Thanks to these data, Spain is in top positions, if only they had taken account of purely economic factors, our country would have been stuck in 24th place.

SOCIAL OR ETHNIC CONFLICTS

Social conflicts in a territory are not beneficial to anyone, and neither for companies that want to lead their industries in those territories.

In Austria there are hardly any major conflicts that may affect location decisions.

By contrast in Spain if there is a social conflict that may affect this issue, and is the terrorist group ETA (Euskadi Ta Askatasuna, Euskera expression translatable into Castilian like Euskadi Fatherland and Liberty, is a terrorist organization, self-declared independence, Basque nationalist and Marxist-Leninist, which invokes the armed struggle as a method to obtain its fundamental objectives in which a priority is the independence of Basque Country which called Euskal Herria, that take part in state of Spain and France.

Their methods have ranged from murder and kidnapping to economic extortion, requesting on Basque businessmen called "revolutionary tax", threatening letters in which they are required to pay a certain amount of money in exchange that its assets and even their physical integrity is not threatened. Although many have denounced these practices mafia, it is difficult to determine how many people carry this notice in silence on their backs, to the psychological terror imposed by a terrorist.

³⁵ *According Mercer Human Resource Consulting 2010*

³⁶ *According "the economist"*

Although this tax is only required to Basque businessmen, many of those entrepreneurs have chose to locate their industries outside the Basque Country.

UNIONIZATION

In Austria there is an unionization average rate similar to other European countries between 40 and 50 per cent, far from 12 per cent of France or 20 per cent of Spain and far too from 85 percent in some countries Nordic like Sweden.

³⁷Austria like other European countries, exactly in Austria the unionization rate has declined from 65 percent in 1950 from 58 percent in 1980 to the present where they have less than 50 percent. Some of the reasons for these declines are the growth of individual conscience in opposition to the social consciousness, economic globalization, and uncertainty about the role of the union in a changing society, bureaucracy in union structures and the breakdown of the relationship leader- base.³⁸

In Spain there are two major unions, the General Union of Workers (UGT), and the Trade Union Confederation of Workers Commissions (CCOO), and in their ranks grouped almost all unionized workers.

Both unions are considered as "union class", are part of an ideological-political context which gives the set of employees faced with common interests the capitalist class and they assign, the strategic objective of conducting a social transformation.

Unionization is an aspect that the industries analyze at the time to locate and sometimes does not suit them a high union power in any country or region. At this point Austria and Spain has a power of association and a similar labor law set out in the European framework, the major difference is that in Austria there is a greater unionization of workers, in Austria the percentage of members than twice that in Spain.

REPUTATION OF THE AREA

A good reputation of an area always has an impact on sales, Austria with Germany has always had a good reputation as regards to its technology, accuracy and quality of their machines and technological equipment is recognized worldwide.

Foreign companies that implement their industries in Austria have assured of skilled labor and a favorable image of the country where it operates.

According to a survey by the Reputation Institute, the "strong points" of Spain's reputation abroad are its natural attractive, institutional and social development, particularly the attractiveness for foreign cultural offerings and leisure.³⁹

³⁷ *REIS 2006 (CIS)*

³⁸ *According INDES – Unions Perspectives 2010*

³⁹ *According Reputation Institute*

Also according to this study, Spain ranks seventh in the recommendation to purchase products of their companies. The director of the Reputation Institute has attributed these worst ratings of the brands to reasons such as that Spain has large companies in sectors that are less "admired by the general public", such as banking or industry, some companies do not identify with Spain or the existence of brands that are unknown in certain countries.

The crisis scenario also have negatively affected the Spanish reputation, mainly for the great doubts that it exists in its economy, so the attraction of foreign investments or creation of new industries has decreased in the Iberian country.

PERSONAL FACTORS

Austria has many industries located in their country that were founded by Austrian entrepreneurs who decided to put their industries at home for various reasons. For example Red Bull energy Drink Company founded by Dietrich Mateschitz,⁴⁰ that he adapted a Eastern product on the Austrian market. Red Bull took off rapidly since the beginning "giving wings to their consumers," quickly conquering the foreign market, currently Red Bull is in 160 countries, 4,000 million cans consumed each year. The industry is located in Fuschl am See, a village of just 1,500 inhabitants near Salzburg. Last year the beverage company won 3268 billion Euros. Red Bull is known for the large investment made in advertising in worldwide, sponsoring football teams (Red Bull Salzburg, Red Bull New York), sports competitions and even a Formula 1 team.

Other example is that of KTM, a brand of motorcycles and cars racing team that it born in 1934 in a locksmith in Mattighofen, Austria. KTM is an acronym formed from the first letters of the surnames of its two founders and the Austrian town in which the firm had its facilities: Kronreif, Trunkelpolz and Mattighofen, respectively.⁴¹

In Spain there are also examples of entrepreneurs who have chosen to apply their ideas to their land despite having a better chance.

Fagor is a company of Mondragón Corporación Cooperativa, as was the pioneer of this corporation and even today remains one of the most important. It emerged in October 1955 when five former students of vocational schools of Mondragon: Luis Usatorre, Jesus Larrañaga, Gorroñogoitia Alfonso, José María Ormaetxea and Javier Ortubay, Otalora bought the shop located in Vitoria that it possessed a license to build appliances. The company called Ulgor, word formed from the initials of their surnames.

In 1959, they influenced with the ideas of José María Arizmendiarieta, founder of the vocational school, transformed the company into a cooperative. The workshop moved to Vitoria to Mondragon, his hometown, and in 1959 registered as a trademark Fagor.

It now has many branches and is the creator of the first robotic appliance that dries and irons all types of clothing.

⁴⁰ [Http://Redbull.com](http://Redbull.com) HISTORY

⁴¹ <Http://ktm.com>

CONCLUSIONS

As now we have a broader view about social and cultural factors that affect our company, we can make a judgment view of how these factors affect the industries to locate those industries.

It can say plainly that the need for businesses and industries to obtain the maximum benefit, it has made that these industries consider all variables, factors and agents that affect before, during and after production of their products.

The location study is one of the first steps that it have to perform a new industry, hence its great importance. These studies cover all the possibilities for their company and they does studies of various potential locations, with all its strengths and weaknesses.

We could also see that there are theoretical models that integrate many variables and it can give at entrepreneurs the solutions of the ideal location for their industry.

In these studies, besides economic factors, productive factors etc. There are some social and cultural factors that entrepreneurs have in mind and we can see that these factors have evolved since industrialization, because the first industries, these factors had virtually no relevance.

It has been shown that these factors are varied, it range from social conflicts existing in a country, through the reputation of an industry until the preferences of an entrepreneur.

It added that we have seen the current situations industries of Austria and Spain. In the social sphere can be seen that the two countries are at the top of human development, with an exceptional quality of life and with a big economic rate in the tertiary sector. But some clear differences as GDP per capita is greater in Austria, and the burden of unemployment slows down economically to Spain.

Industrially, we may conclude that Austria is more focused on industry, with a more organized industrial network, and a general workforce more skilled, on the contrary Spain may have more kinds of industries.

To which respects the social and cultural factors when locating, many of these factors equally affect the two countries, mostly because the two countries are European countries. Equal in factors such as quality of life or systems government, but other differences like that in Austria exist a greater unionization, and greater industrial reputation of their companies.

Ultimately, after analyzing all the social factors, see how they affect the industry, and the situation in the different examples, it can be concluded that social factors are not a conclusive factor in choosing the best location, in other words, social and cultural factor is not the main factor when locating the industry, as are other factors that influence the most, especially the economic factors are the main factors, and so it can improve its profit margin on everything related to the cost of labor. Perhaps personal factors would be an exception to this statement so if that can be decisive if some entrepreneur wants to locate their industry at all costs, at determinate place related affectively to him.

But on the other hand, the social and cultural factors although non-determinants at time to choosing a specific location, if you can determine when to discard or reject a type of location. Since these factors that can decide the final decision of a particular place to another, because some kind of social or cultural factor may be or become a possible external agent affecting our industry or the product that we manufacture.

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